MONTENEGRO AIRPORTS CONCESSION

Information Memorandum

October 2019

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List of Acronyms

AoM	Airports of Montenegro JSC
ARFF	Aircraft Rescue and Firefighting
CAA	Civil Aviation Agency
FSNC	Full Service National Carrier
GoM	Government of Montenegro
IFC	International Finance Corporation
LCC	Low Cost Carrier
MA	Montenegro Airlines
MoT	Ministry of Transport and Maritime Affairs of Montenegro
MTOW	Maximum Takeoff Weight
RESA	Runway End Safety Area
SMATSA	Serbia and Montenegro Air Traffic Services Agency
TC	Tender Committee
TGD	Podgorica Airport (IATA)
TIV	Tivat Airport (IATA)

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1 Context

1 Background

The Government of Montenegro (the "GoM" or the "Government") acting through the Ministry of Transport and Maritime Affairs (the "MoT") is seeking to identify a private partner (the "Concessionaire") to undertake construction, reconstruction, modernization, maintenance and usage of Podgorica International Airport ("TGD") and Tivat International Airport ("TIV"), together the "Montenegro Airports" under a long term concession agreement (the "Transaction" or the "Project").

The Montenegro Airports are currently operated by Airports of Montenegro JSC ("AoM"), a company fully owned by the Government. The rights and obligations related to the operation and management of the Montenegro Airports shall be fully transferred to the Concessionaire.

The GoM is seeking private sector expertise and investment capabilities to expedite the rehabilitation program of the Montenegro Airports, to successfully support tourism as one of the most important industries of Montenegro, and a vital engine of growth. The benefits of introducing the private sector in Montenegro Airports' operations include improved services to passengers, route expansions, and greater promotion of Montenegro as a tourism destination, resulting in substantial benefits at the national and regional levels.

2 Government Objectives

The GoM's objectives are to:

- Enhance the competitive positioning of the Montenegro Airports to support Montenegro as a high-quality tourism destination in Europe,
- Leverage private sector investment to modernize and expand the infrastructure at the Montenegro Airports,
- Increase service quality standards and improve operational efficiency in line with international best practices, and
- Monetize the assets' optimal value.

3 MoT's Advisory Team

A Tender Committee ("TC") comprised of representatives from the Government of Montenegro, the MoT and the MoF has been established to oversee the implementation of the tender for the Project. Deputy Prime Minister Milutin Simović is the chair of the TC.

The International Finance Corporation ("IFC") has been appointed as Lead Advisor by the MoT to assist with the structuring and implementation of the Transaction.

The following specialized firms are supporting IFC:

IFC's Specialized advisors	
Role	**Name of Firm**
Legal counsels	Gide Loyrette Nouel ("GLN"); Karanovic & Nikolic ("KN")
Technical advisor	ALG Indra Business Consulting ("ALG")
Environmental and Social Impacts Advisor	Environmental Resources Management ("ERM")

Figure 1 IFC's Specialized Advisors

4 Process Timetable

The GoM wishes to select a private partner through an open, international, transparent and competitive two-stage tender procedure in accordance with the applicable Montenegrin Law on Concessions ("Official Gazette of Montenegro", Nos. 8/2009).

The tender procedure shall be implemented in two consecutive stages:

- A qualification stage, the outcome of which shall be the qualification of only those bidders which meet the eligibility and qualification criteria, followed by:
- A proposal stage, the outcome of which shall be the selection of the preferred bidder on the basis of the most favorable technical and financial bid.

The indicative timeline of the entire procedure is summarized below. The Ministry retains the right to extend the timeline.

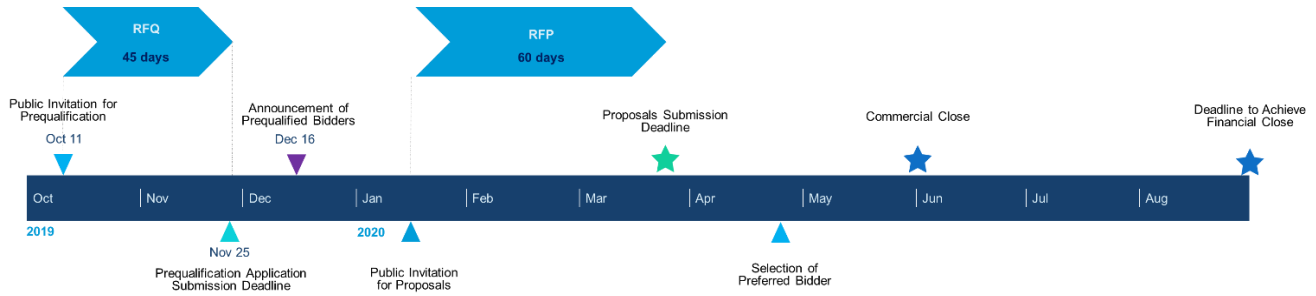


Figure 2 Indicative Timeline of Procedure

2 Investment in Montenegro

1 Investment Highlights

The air transport market in Montenegro is dominated by the movements of tourists predominantly originating from neighboring Balkan countries, Russia, and closest European countries. As illustrated in Figure 2.1, tourists' arrival has grown at a CAGR of 6.4% from 2008 to 2018, driven by incoming international arrivals, reaching 2.1 million tourist arrivals in 2018. In 2018, air transport secured a 57% market share of all tourists' arrivals.

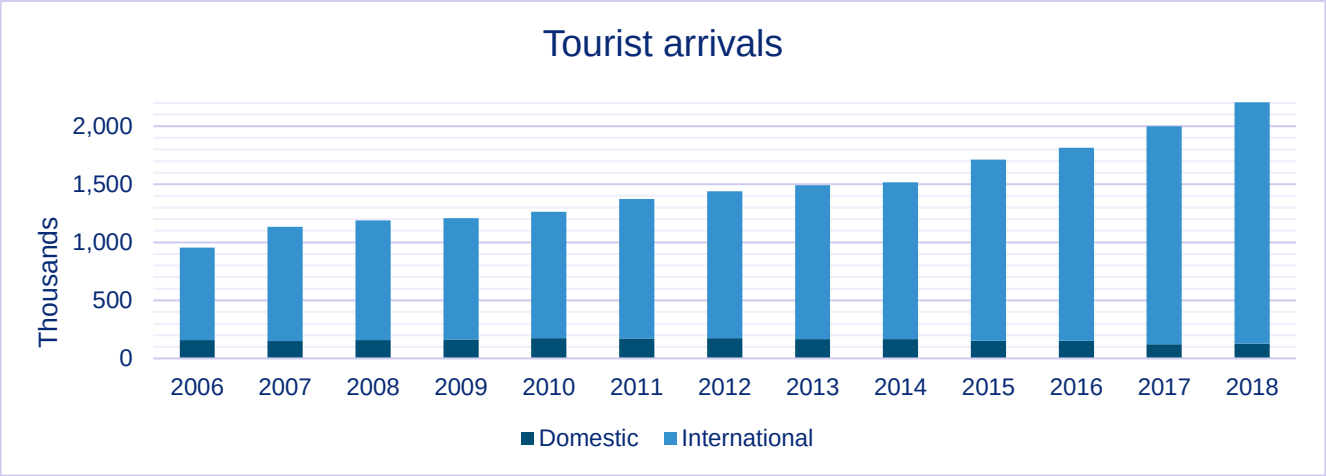


Figure 3 Tourist Arrivals (all modes) in 2018[1]

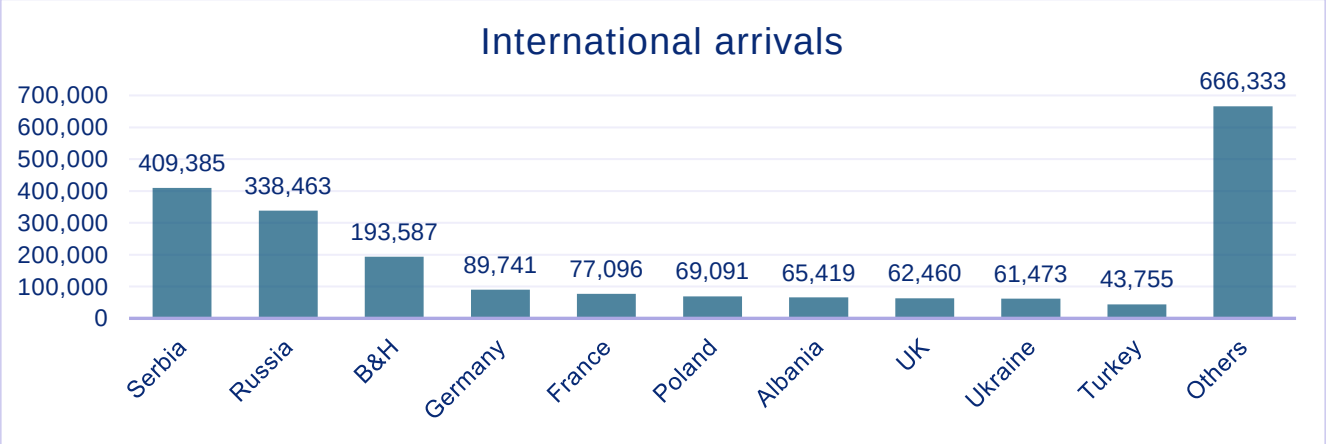


Figure 4 Tourist Arrivals (all modes); by nationality; 2018[2]

[1] Source: Statistical Office of Montenegro
[2] Source: Statistical Office of Montenegro

In 2018, tourists from Serbia made up approximately 20% of all international arrivals, followed by tourists from Russia and Bosnia & Herzegovina, at 16% an 9% respectively.

In 2018, contribution of travel and tourism to GDP (% of GDP) for Montenegro was 21.6%. Though Montenegro contribution of travel and tourism to GDP (% of GDP) fluctuated substantially in recent years, it tended to increase through 1999 - 2018 period[3]. Travel and tourism investment in 2018 amounted to EUR 340 million, or 40% of total foreign direct investment and is expected to rise by 6.9% per annum over the next 10 years. The most recent major investments in tourism were made by Investment Corporation of Dubai in Porto Montenegro, ORASCOM in Luštica, Aman Resorts in Sveti Stefan, and Porto Novi development by Azmont Investments.

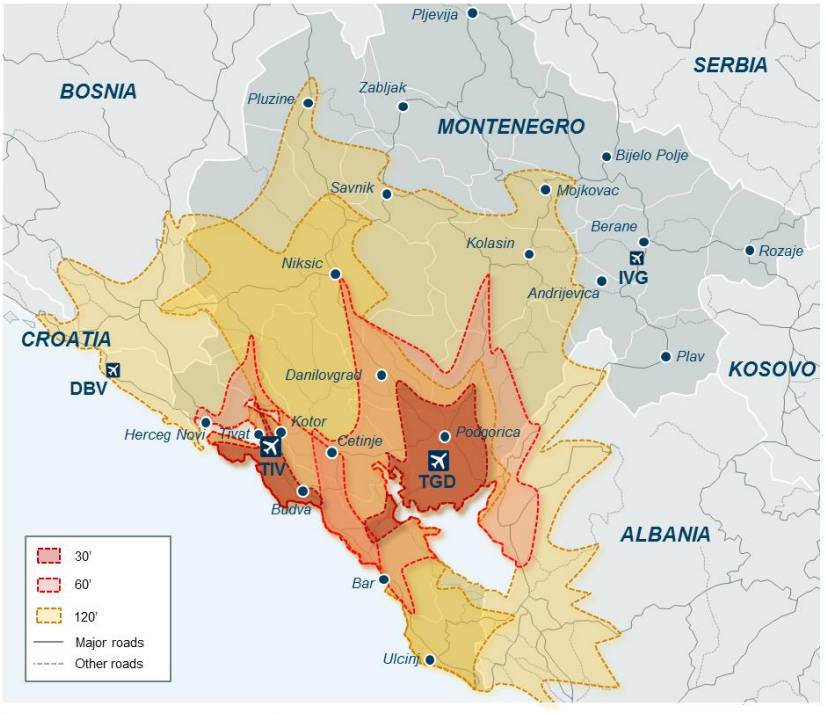
Montenegro enjoys an accommodation capacity of more than 160,000 beds[4], with more than 10% of these in high-quality hotels[5]. According to the tourism masterplan of the GoM, the accommodation capacity is expected to reach 275,000 beds by 2020[6]. Official statistics for 2018 show more than 4 million tourism arrivals in Montenegro, an increase of almost 10% when compared to 2017 figures.[7]

Overall, 90% of total international arrivals (based on all modes of transport) are concentrated on the coast. The Montenegrin Adriatic coast is 293 km long, with 73 km of beaches, and many well-preserved old towns. At present, the most visited touristic attractions are located along the northern part of the Adriatic Sea coastline, all within 45min driving time from TIV, and within 90min driving time from TGD. Kotor's natural, cultural and historical region, a World Heritage site, is the main attraction, along with the old towns of Herceg Novi, Sveti Stefan, Budva and Petrovac. Budva is also a popular gambling destination, and Porto Montenegro in Tivat boasts a luxury yacht marina. The south coast, where the interest at present is focused on eco-tourism around the fortress towns of Ulcinj, Bar, Ada Bojana and the Skadar Lake, offers many untapped opportunities for greenfield development.

In its long-term tourism master-plan, the GoM aims to attract investments to continue developing sustainable, high-quality resorts, tourism infrastructure and services on the coast, and to develop nature-based, all year-round, tourism (hiking, biking, skiing), in particular in the hinterland region in the east and north of the territory. Besides Kotor bay, the country has two other World Heritage sites: Durmitor national park, and Stećci medieval tombstone graveyard.

The rest of the passenger mix is driven by visiting friends and relatives ("VFR") and business trips made by Montenegrin. About 76% of the Montenegrin population is located in the non-coastal interior regions, thus predominantly within the natural catchment area of TGD.

[3] Source: Knoema Global Database, 2019
[4] Ministry of Tourism, August 2016
[5] Four and five-star hotels
[6] GTZ-HRD study, 2016
[7] MonStat



Town	Travel Time (min)		Natural Catchment Area (TIV vs TGD)	
	TIV	TGD	TIV	TGD
Andrijevica	235	90	28%	72%
Bar	70	50	42%	58%
Berane	240	160	40%	60%
Bijelo Polje	220	140	39%	61%
Budva	25	70	74%	26%
Cetinje	65	50	43%	57%
Danilovgrad	105	35	25%	75%
Herceg Novi	60	150	71%	29%
Kolasin	170	90	35%	65%
Kotor	10	90	90%	10%
Mojkovac	190	110	37%	63%
Niksic	105	65	38%	62%
Plav	270	180	40%	60%
Pljevlja	235	205	47%	53%
Pluzine	150	110	42%	58%
Podgorica	90	10	10%	90%
Rozaje	270	180	40%	60%
Savnik	140	135	49%	51%
Tivat	10	95	90%	10%
Ulcinj	100	80	44%	56%
Zabljak	170	135	44%	56%

Figure 5 Natural Inbound Catchment Areas of TIV and TGD[8]

Therefore, the GoM is expecting passenger traffic to grow at a CAGR of 4.3% over the coming 26 years, fueled by a sustainable and dependable tourism growth.

Besides aeronautical activities, the Concessionaire may invest in non-aeronautical revenue generation businesses on the sites provided for the Project. While the space may be constrained at TIV, there is a significant upside potential, since non-aeronautical revenues at the Montenegro Airports represent in 2018 about EUR 1.8/passenger, compared with a EUR 5.3 at Bologna Airport, EUR 6 at Budapest Airport, EUR 8.7 at Tallinn Airport and EUR 15.5 at Munich Airport.[8]

While operating costs are already relatively low, and concentrated on human resources, the Concessionaire may seize the opportunity to optimize energy consumption through the use of energy-efficient technologies. It is expected that the concessionaire shall obtain at least the LEED Silver certification.

The investment program needed at the inception of the concession is commensurate with the economic outlook for the project and has been conceived to correct the deficiencies in terms of compliance with international safety standards, and to meet the demand of reasonable passenger growth forecast, whilst not overburdening the concession. The investment program in TGD is limited, while the one in TIV is more substantial, yet necessary to achieve compliance with international standards and certification. In the future, capital investments in expansion will be triggered by the achievement of traffic thresholds, Key Performance Indicators, and international levels of service.

[8] Source: Ricover, based on airports' annual reports, for year 2017

To conclude, the prominent attributes of this opportunity are:

1) Long term passenger growth driven by tourism, expected to reach 6 million passengers per year by 2037,
2) Improvement of non-aeronautical revenues,
3) Tourism growth potential driven by an abundant natural beauty, in an unspoiled tourism destination within a few hours flight from most major European capital cities,
4) Dynamic growth, and positive benefits of economic reforms driven largely by EU accession negotiations,
5) Well-sized and phased investment program,
6) Supportive grantor, stable aviation policy, enabling regulatory framework, and
7) Transparent, competitive tender process with objective selection criteria.

2 Investment Climate

Montenegro is a sovereign state in Southeast Europe, with a total population of 626,000[9]. It is bordered by Croatia, Bosnia and Herzegovina, Serbia, Kosovo[10], and Albania. Podgorica is the capital and largest city. Following an independence referendum held in May 2006, Montenegro declared independence from Serbia in June 2006. It is an upper-middle income country[11], and a member of UN, NATO, WTO, the Council of Europe and the Central Europe Free Trade Agreement. It is in advanced negotiations to become a member state of the European Union. Montenegro has started talks on 29 out of 35 chapters of the EU's Acquis Communautaire (body of law) and provisionally closed negotiations on three (chapter 30, external relations; chapter 25, science and research; and chapter 26, education and culture). Montenegro is a signatory of the European Common Aviation Area agreement.

The euro is the official currency since January 1st, 2002.

2.1 Government

Mr. Đukanović, from the Democratic Party of Socialists (DPS), was elected on April 15th, 2018 by universal suffrage as the new president of Montenegro, thus starting a 5-year mandate. The Government of Montenegro is headed by a Prime Minister and is the executive branch, responsible to the Parliament. It is presently a coalition government, led by the DPS. The current Prime Minister is Mr. Duško Marković.

The parliament is a unicameral legislative body. The parliamentary election held in October 2016 resulted in a victory for the DPS. The party secured 41% of the vote and 36 out of 81 seats in parliament, short of an outright majority.

The next parliamentary elections are due in October 2020, and the next presidential elections are due in April 2023.

[9] Source: UN, 2015
[10] This designation is without prejudice to positions on status and is in line with UNSCR 1244 (1999) and the ICJ Opinion on the Kosovo declaration of independence.
[11] World Bank classification

2.2 Economic Outlook

The Economist Intelligence Unit foresees a GDP growth of 3.1% per year in 2018-19, supported by construction and tourism activity, as well as robust household spending, following estimated real GDP growth of 2.9% in 2019.[12]

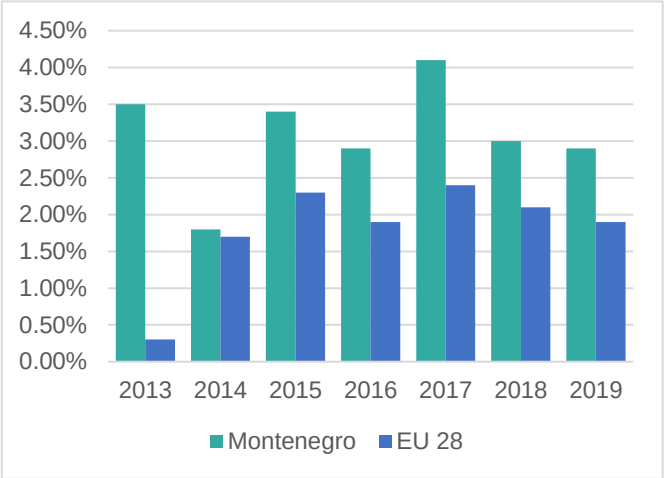


Figure 6 GDP (% change, year on year)

While the government has adopted what the World Bank has described as an ambitious fiscal consolidation strategy, the impact of the pre-election boost to wages, pensions and social welfare in 2016 continues to feed through into higher expenditure commitments. The Economist Intelligence Unit estimates that in 2017 the budget deficit widened to almost 5% of GDP. However, in 2018 the deficit was set at 2.6 percent of national output, down by a half from a year before. Therefore, the main policy challenges faced by the Government are to strengthen the public-sector finances and rein in the large current-account deficit while trying to spur economic growth. To that effect, privatizations and PPPs form part of the Government's long-term policies.

Montenegro is ranked 42nd out of 190 economies in the World Bank's 2018 Doing Business Report. It is rated B+ by Standards & Poor's, and B1 by Moody's.

2.3 Tax Incentive Legislation

The tax system in Montenegro is flat, relatively simple and competitive in the region. The tax and customs legislation are largely aligned with the relevant European Directives. The corporate income tax rate is equal to 9%, which is the lowest in the region. The standard VAT rate is 19%, with the implementation of a reduced VAT rate of 7% on some categories of products and services. All investors are able to remit dividend and interest profit in full, without restriction.

The relevant pieces of legislation regarding tax and customs are:

- Law on Administrative Proceeding ("Official Gazette of Montenegro" nos. 56/2014, 20/2015, 40/2016 and 37/2017),
- Law on Tax Administration ("Official Gazette of Republic of Montenegro" nos. 65/2001 and 80/2004 and "Official Gazette of Montenegro" nos. 20/2011, 28/2012, 8/2015 and 47/2017),
- Law on Corporate Income Tax ("Official Gazette of Republic of Montenegro" nos. 65/2001, 12/2002, 80/2004 and "Official Gazette of Montenegro" nos. 40/2008, 86/2009, 40/2011 – other law, 14/2012 and 61/2013 and 55/2016),
- Law on Personal Income Tax ("Official Gazette of Republic of Montenegro" nos. 65/2001, 12/2002, 37/2004, 29/2005 – other law, 78/2006, 4/2007 and "Official Gazette

[12] Source: Eurostat

of Montenegro" nos. 86/2009, 40/2011 - other law, 14/2012, 6/2013, 62/2013, 60/2014, 79/2015 and 83/2016),
- Law on Value Added Tax ("Official Gazette of Republic of Montenegro" nos. 65/2001, 12/2002, 38/2002, 72/2002, 21/2003, 76/2005, 4/2006 and "Official Gazette of Montenegro" nos. 16/2007, 40/2011 - other law, 29/2013, 9/2015, 53/2016, 1/2017 and 50/2017),
- Law on Real Property Tax ("Official Gazette of Republic of Montenegro" nos. 65/2001, 69/2003 - other law and "Official Gazette of Montenegro" nos. 75/2010, 9/2015 and 44/2017) (more closely regulated by decisions of local authorities),
- Law on Real Property Transfer Tax ("Official Gazette of Montenegro" no. 36/2013),
- Customs Law ("Official Gazette of Republic of Montenegro" nos. 7/2002, 38/2002, 72/2002, 21/2003, 29/2005, 66/2006 and "Official Gazette of Montenegro" nos. 21/2008, 62/2013 and 71/2017),
- Law on Customs Tariff ("Official Gazette of Montenegro" no. 28/2012) along with yearly Regulation on Customs Tariff ("Official Gazette of Montenegro" no. 5/2018),
- Law on Customs Office ("Official Gazette of Montenegro" no. 3/2016 and 80/2017).

3 Legal Framework

While there is no single piece of legislation referring to PPPs and Concessions for the delivery of public services at present in Montenegro, the legislative and regulatory framework has been tested in the past by the GoM for transactions in power, road and tourism sectors, all presenting PPP and concession characteristics.

The present Transaction has been structured under the existing Law on Concessions ("Official Gazette of Montenegro", No. 8/2009). As a result, the concession act for the implementation of the Project was approved by a Government decision dated July 25th, 2019, following a public consultation process. These are all robust bases for the implementation of the tender procedure and of the transaction.

3.1 Legal and institutional framework of the aviation sector

The Civil Aviation Agency ("CAA") is the regulator responsible for imposing safety standards, enacting regulations and administrative acts, issuing official documents and keeping records, conducting the audit of the aviation entities, issuing certification and ensuring compliance with national standards.

The MoT, the grantor of the concession, oversees adopting regulations and national plans governing the aviation sector, and appointing the CAA's supervisory board members. In the context of the concession, it will set the detailed performance standards, and will monitor the operator's performance against those standards. It will approve airport fees and charges.

SMATSA is the joint Serbian-Montenegrin air traffic controller.

Montenegro is a signatory of the Chicago Convention on International Civil Aviation, of the European Common Civil Aviation Area agreement, and a member of the European Civil Aviation Conference and EuroControl.

3.2 Aeronautical Charges

At Montenegro Airports, aeronautical charges are levied for aircraft landings, aircraft parking, passenger services, and security services. The provisions of the Air Transport Law ("Official Gazette of Montenegro", No 30/2012 and 30/2017) allows for the airport operator to determine the level of airport charges, which shall be approved by the MoT. The regulatory framework does not prescribe the methodology to be used to calculate and propose aeronautical charges. Therefore, the airport operator has the freedom to propose the adjustment of regulated charges based on an approach (single, hybrid or dual till) that would be optimal for its business strategy and the interests of the airports' users.

The present maximum aeronautical charges are set in euros and provided in Annex [1].

The airport operator is also free to negotiate discounts with airlines, subject to being non-discriminatory, fairly distributed amongst all users and limited in time, scope and amounts, in accordance with ICAO's policies on charges.

The Government intends to implement and achieve the following in the concession agreement with respect to aeronautical fees and charges:

i. Conformity with EU Directive 2009/12/EC of the European Parliament and of the Council of 11 March 2009 on airport charges, the Horizontal Aviation Agreement, the European Common Aviation Area (ECAA) and with the Single European Sky (SES) framework as set forth by EUROCONTROL. The methodology is to be fully compliant with above legislation above upon adoption, without a foreseen phase-in period;

ii. Implementation of a best-practice regulatory implementation period of ~7 years, in order to avoid regulatory capture or other inefficiencies which cannot be foreseen over a longer time horizon; and,

iii. Feature of caps imposed to represent the maximum (annual) rate at which the operator may increase tariffs at its discretion. The caps are to be more narrowly defined pending further analysis; however, it has been identified that they will be formed by several indices (CPIs or similar) which best represent the economic and geographic characteristics of the Montenegro Airports revenue structure.

3 Business Overview

1 Location Overview & Site Layouts

TIV and TGD are the only two airports in Montenegro offering services to commercial airlines. Tivat is located on the far north end of the Montenegrin coast, whereas Podgorica, the capital of Montenegro, is located inland about 50 km north from the City of Bar at the southern end of the coast. The two airports are 85 km apart from each other.

TIV and TGD have experienced a 7.0% and 8.7% annual compounded growth in passenger traffic in the period 2007-2017 respectively. The total number of pax in 2018 was 2.46 million, with Tivat recording around 1.25 million and Podgorica 1.21 million. Traffic is driven by summer season tourism with the June-September period representing 64% of the annual traffic (75% for Tivat and 50% for Podgorica), compared to for example 44% in Belgrade (Serbia).

There are two other former airfields in Montenegro. Berane airport is located in the northeast part of the country and currently has no operations. Former facilities include an asphalt runway and terminal building – both in poor condition. Ulcinj airport is a former airfield with an approx. 760 m. grass runway facility.

Figure 7 Localization of Montenegro Airports

PODGORICA

Terminal Area
- 5,500 sqm

FY2018 mPax
- 1.21

FY2018 AC Mvmnt
- 15,922

FY2018 Cargo
- N/A

Intl. / Domestic Passengers
- International: 100%
- Domestic: -

Runways
- RWY 18-36: 2,500 m x 45 m

Aircraft Parking Stands
- 6 Code C-stands plus 3 general aviation stands
- Additional stands available at hangar areas

Current declared capacity
- Approx. 1 mpax (terminal constraint)

Operating Hours
- H16

Figure 8 Overview of TGD Air Site

TIVAT

Terminal Area
- 4,050 sqm

FY2018 mPax
- 1.25

FY2018 AC Mvmnt
- 13,636

FY2018 Cargo
- N/A

Intl. / Domestic Passengers
- International: 100%
- Domestic: -

Runways
- RWY 14-32: 2,500 m x 45 m

Aircraft Parking Stands
- 6 Code C-stands & 1 Code D-stand plus 6 general aviation stands

Current declared capacity
- Approx. 1 mpax (terminal constraint)
- 13-15 ATMs/h (airfield constraint)

Operating Hours
- H10 (H14 during summer high season)

Figure 9 Overview of TIV Air Site

2 Service Providers

International traffic in Montenegro has increased rapidly (9.4% CAGR) over the last decade due mainly to LCC growth over the last years.

Montenegro Airlines is the market leader accounting for almost 1/3 of total international seats supply, however it has experienced a decrease in its market share from 68% in 2009 to 25% in 2018.[13]

FSNCs have lost market share in Montenegro after the entrance of LCCs in 2013. In 2018, LCCs had gained a market share of 13% with Ryanair, EasyJet & Wizz air as the main drivers.

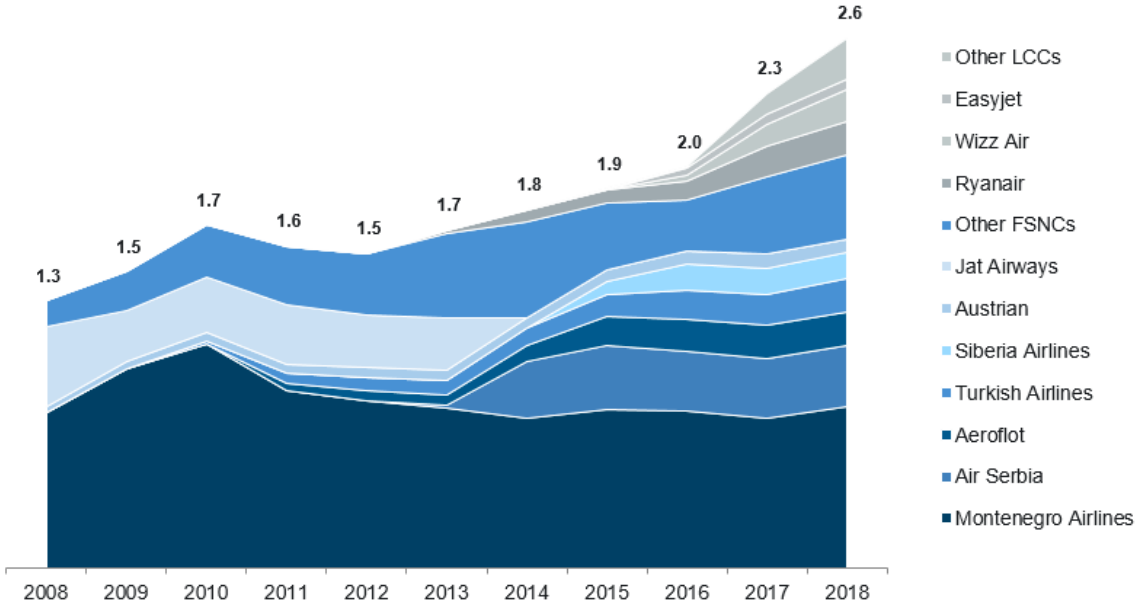


Figure 10 Total Supply by Airline (mSeats)[14]

[13] Source: AoM Annual Report 2018
[14] Source: OAG

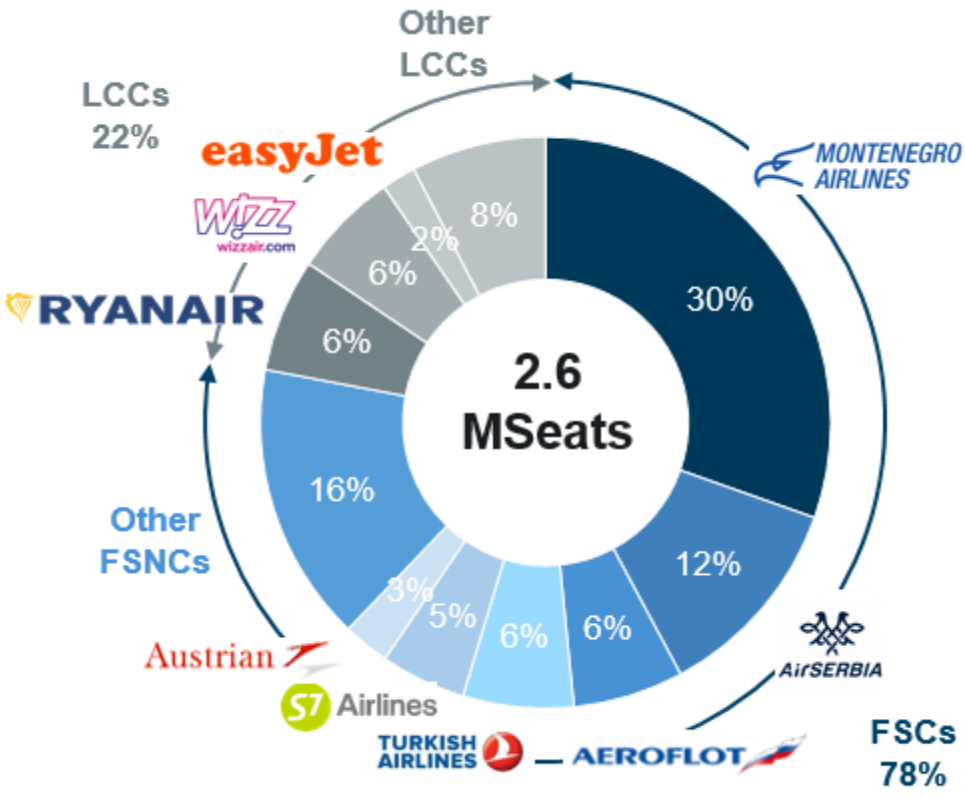


Figure 11 Airline Market Share - Total Supply '18[15]

A considerable portion of Montenegro's traffic is formed by charter flights. In 2018, scheduled flights accounted for 57% of all flights, whereas 43% were attributed to charters.

	Scheduled Flights	%	Charter Flights	%
TGD	5,209	35%	2,706	18%
TIV	3,182	22%	3,634	25%
Total	**8,391**	**57%**	**6,340**	**43%**

Figure 12 Overview of Flight Structure 2018[16]

3 Transfer of Existing Labor Contracts

Based on the provided lists of staff as of 31 December 2018, AoM had a total of 684 employees. Out of this number, 95 people are employed at the headquarters of AoM, 362 at TGD and 227 at TIV.

A broad organizational breakdown is provided below.

[15] Source: OAG
[16] Source: Airports of Montenegro Annual Report 2018

	TGD	TIV
Director and his deputy	2	2
Administration	10	8
ARFF	40	25
Terminal Service and ground handling	165	95
Maintenance	35	27
Operations	10	10
Security	100	60
Total	362	227

Figure 13 Staff Organizational Structure, December 2018[17]

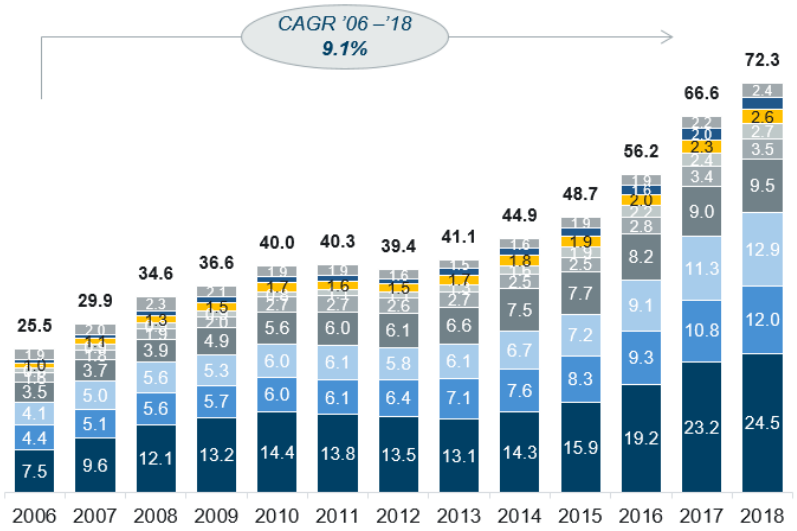
The Concessionaire shall offer to permanent employees of AoM an employment contract on comparable terms as their existing contracts with Airports of Montenegro, from the effective date of the concession.

[17] Source: AoM Annual Report 2018

4 Traffic Analysis

1 Market Overview

The Balkans have experienced two periods of high growth during the last decade (2006-2009 & 2013-2018) with recovery post crisis. Air transport in the region has grown at 9.1% CAGR over the last decade, with growth rates above 6.0% in all regions including Montenegro (with an 8.3% growth rate).



	CAGR '06-'18
Slovenia	2.2%
Bosnia and Herzegovina	10.8%
Montenegro	8.3%
Macedonia	10.4%
Albania	6.8%
Serbia	8.6%
Bulgaria	10.0%
Croatia	8.7%
Romania	10.4%
Total	**9.1%**

Figure 14 Seat Capacity Evolution in the Balkans (Mseats '06-'18)[18]

TIV and TGD are the two international gateways to Montenegro and have experienced similar traffic volumes over the last decade. International traffic in Montenegro has increased rapidly due mainly to the penetration of LCC over the most recent years.

[18] Source: OAG (Note: The seat capacity for each region is obtained by considering all the domestic seats plus the departing international seats multiplied by two)

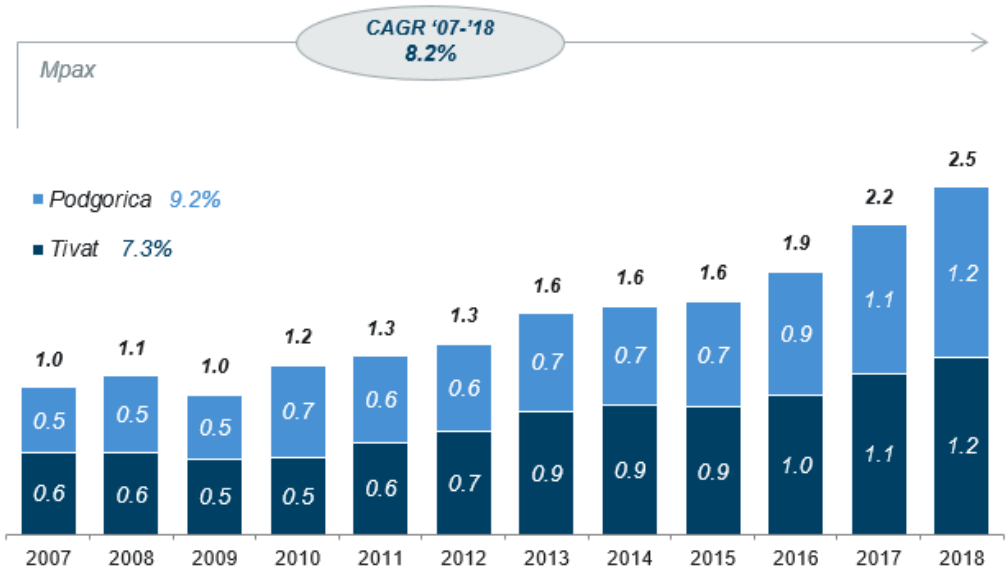


Figure 15 Traffic volumes at TIV and TGD over the past 12 years (MPax)[19]

Montenegro Airlines is the market leader, accounting for almost one third of the total international seat supply, however its market share has decreased from 68% in 2009 to 30% in 2018.

FSNCs have generally lost market share in Montenegro after the entrance of LCCs in 2013; currently LCCs had a combined market share of 22%, with Ryanair and Wizz Air as the main players.

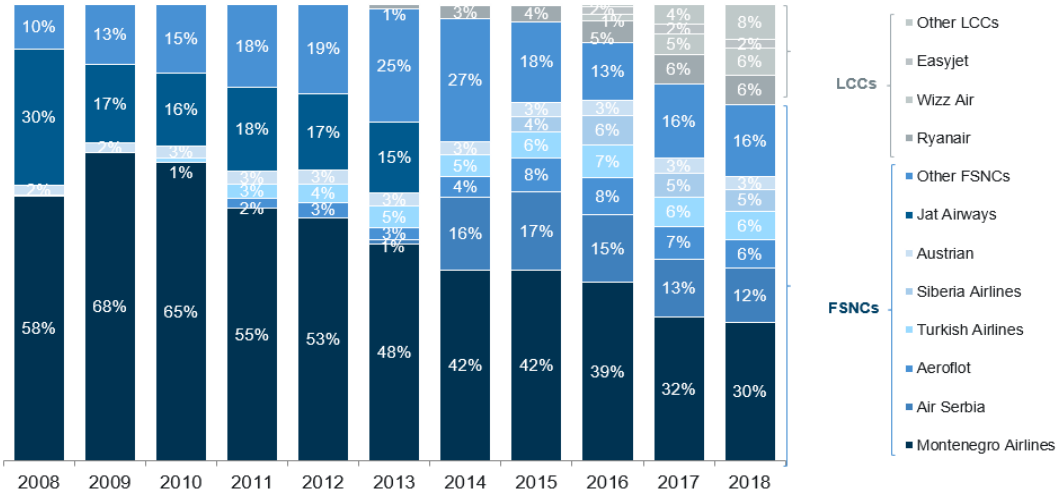


Figure 16 Market share evolution by Airlines (Mseats '08-'18)[20]

Traffic market in Montenegro is heavily driven by tourism demand, which results in very high seasonality during the summer season particularly at Tivat where traffic volume during the peak season is 10 times higher compared to the winter season.

[19] Source: Airports of Montenegro
[20] Source: OAG

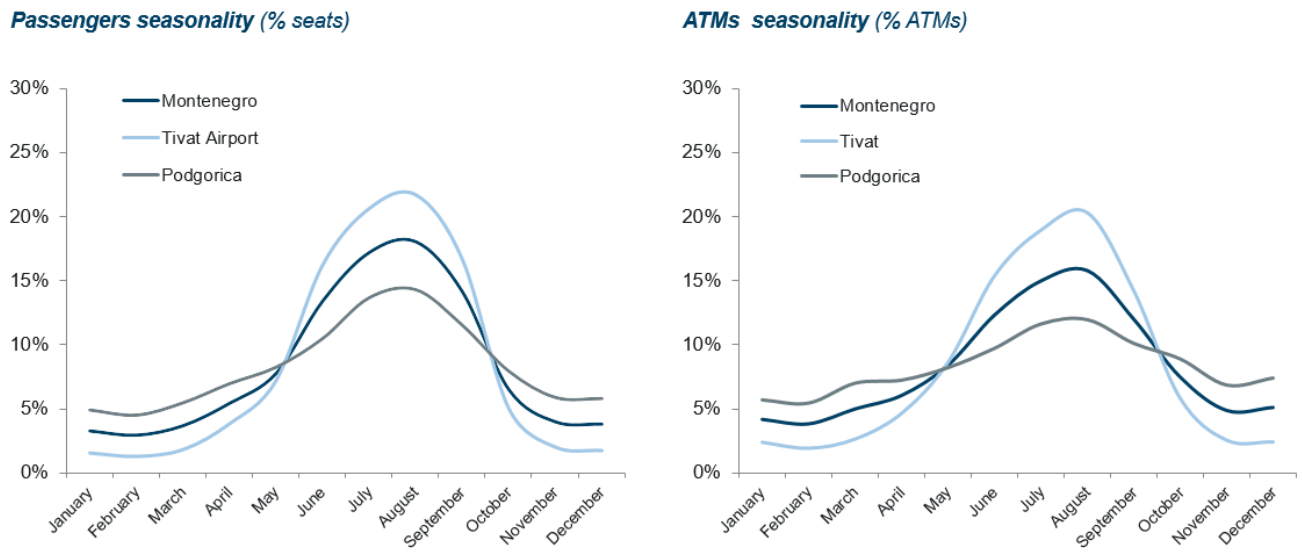


Figure 17 Air Traffic Seasonality in Montenegro[21]

[21] Source: OAG

2 Historical Traffic Analysis

2.1 Tivat Airport (TIV)

Tivat traffic, which is purely international, has experienced a growth of 7.3% CAGR over the last decade, reaching 1.25 Mpax in 2018.

ATMs have increased at a lower rate than passenger traffic (3.9% CAGR) due to the utilization of larger aircraft and an improvement of load factors.

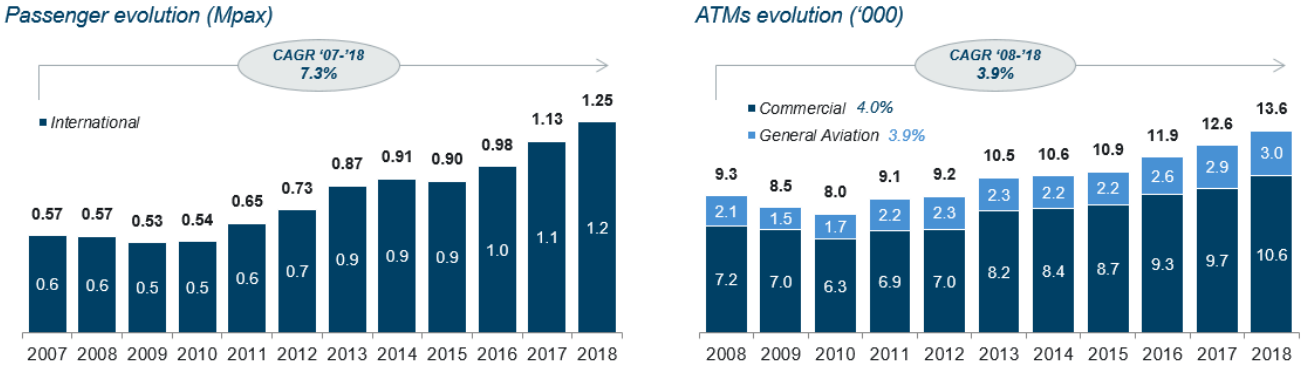


Figure 18 TIV – Air Traffic evolution[22]

	CAGR '08-'18	CAGR '14 -'18
LCCs	-	189.7%
FSNCs	5.5%	1.6%
Total	7.6%	6.7%

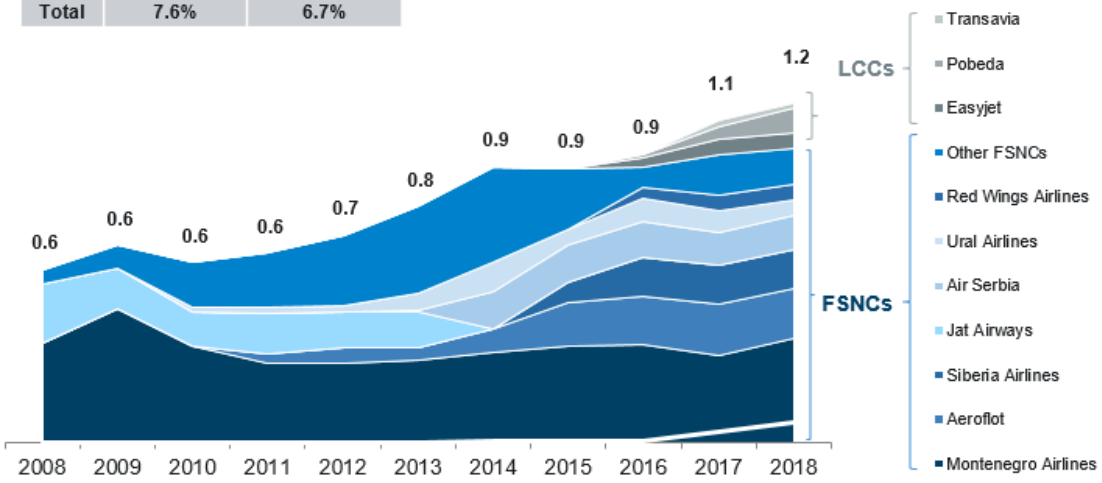


Figure 19 Total scheduled supply evolution by Airlines (Mseats '08-'18)[23]

Montenegro Airlines is the market leader, accounting for about a quarter of total international seats supply, however its market share has decreased from 68% in 2009 to 29% in 2018. Following entry in 2014, LCCs reached an 18% share of the scheduled market in 2018.

[22] Source: OAG; Airports of Montenegro
[23] Source: OAG

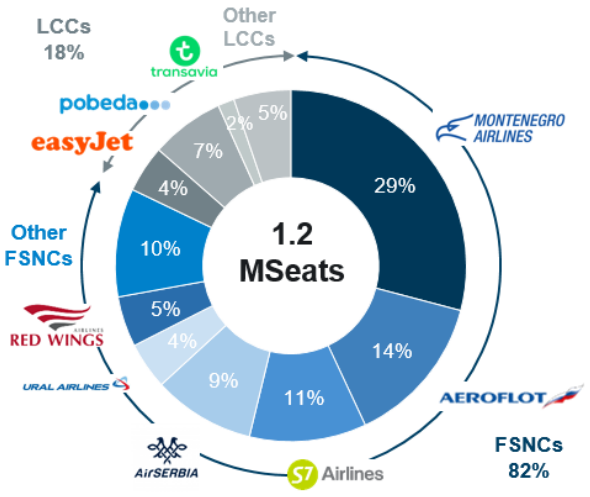


Figure 20 Scheduled Airline Market Share (Total supply - 2018)[24]

Tivat has a relatively small network of scheduled short and medium haul destinations in Europe, which are still predominantly served by FSNCs. The top 3 routes account for c.70% of the total supply and these top routes are still highly dominated by FSNCs.

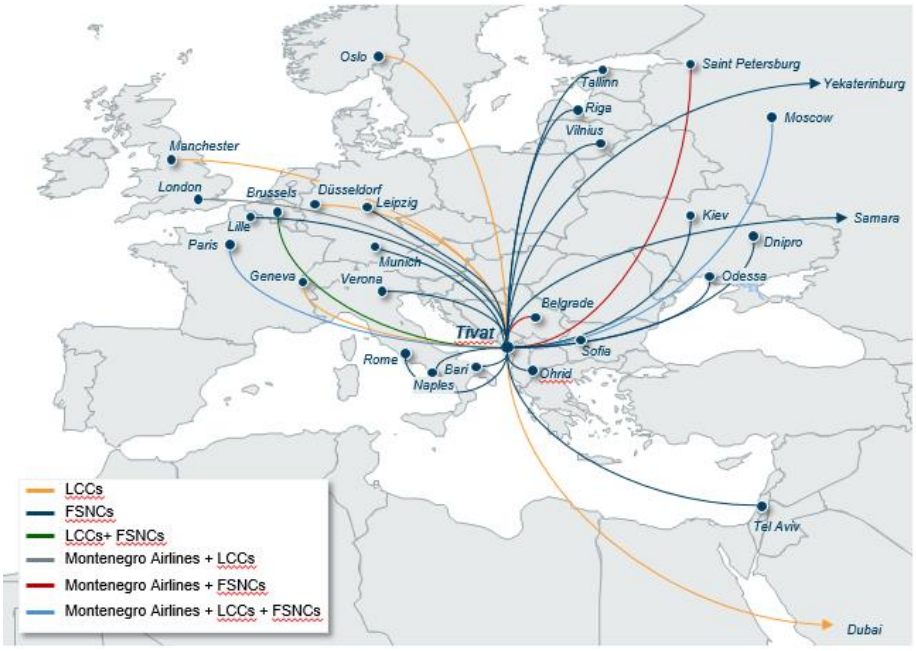


Figure 21 Routes served from TIV (2018)[25]

[24] Source: OAG
[25] Source: Airports of Montenegro

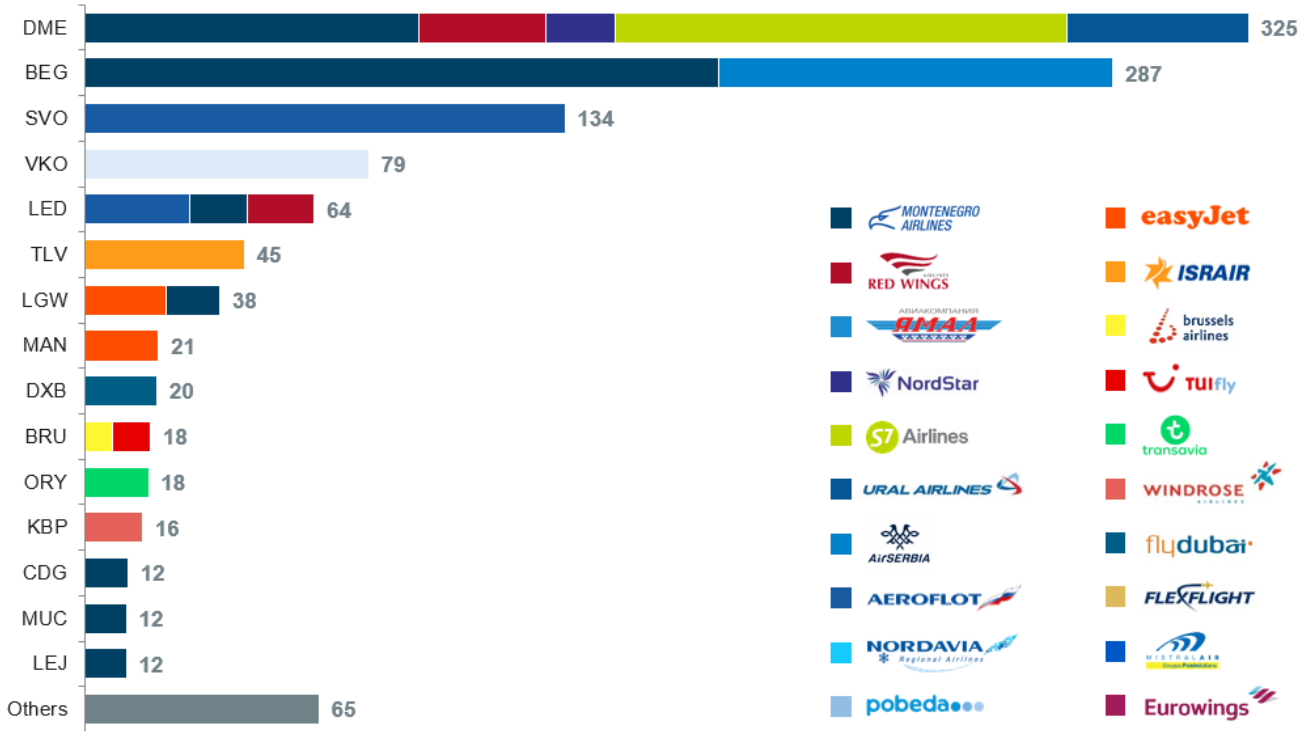


Figure 22 2018 Top 15 International Scheduled routes by airline at TGD (2-ways kseats)[26]

2.2 Podgorica Airport (TGD)

Podgorica traffic, which is purely International, has experienced a faster growth (compared with Tivat) of 9.2 % CAGR over the last decade, reaching 1.21 Mpax in 2018.

ATMs have increased at a lower rate than passenger traffic (3.5% CAGR) due to the utilization of larger aircraft and an improvement in load factors.

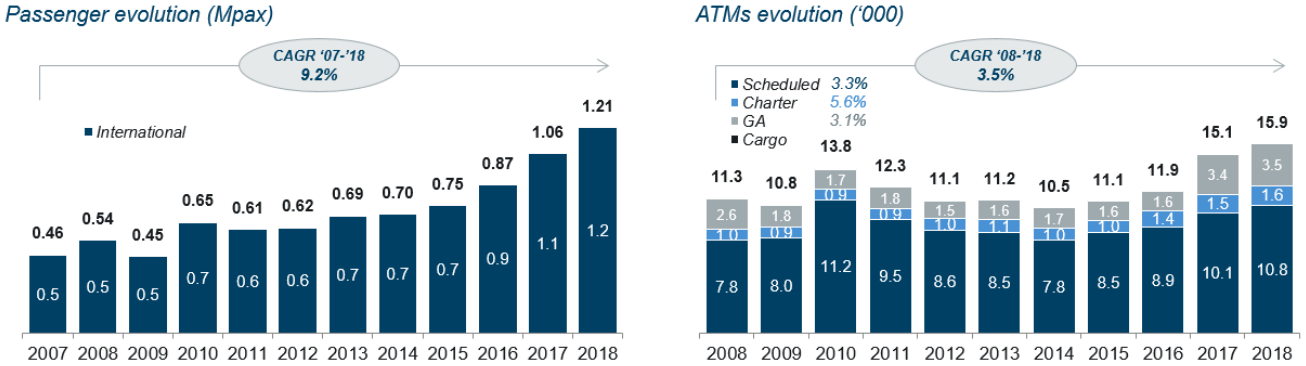


Figure 23 TGD – Air Traffic evolution[27]

[26] Source: OAG
[27] Source: Airports of Montenegro

International capacity supply at TGD has increased rapidly at 10.3% CAGR over the last decade, driven in particular by LCCs Ryanair and Wizz Air who started operations in ’13 & ‘16 respectively.

	CAGR ’08-’18	CAGR ‘13-‘18
LCCs	-	120.9%
FSNCs	3.1%	3.0%
Total	6.5%	10.3%

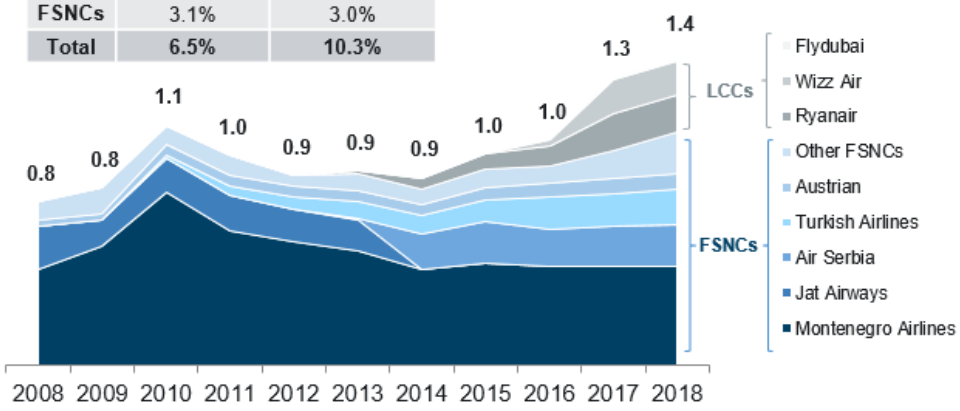


Figure 24 Total scheduled supply evolution by Airlines (Mseats ’08-‘18)[28]

Montenegro Airlines is the market leader in TGD accounting for over 1/3 of the total international seats supply, however its market share has decreased from 72% in 2010 to 31% in 2018.

In 2018 LCCs reached a market share of 25% at TGD, with Ryanair and Wizz Air being the main players.

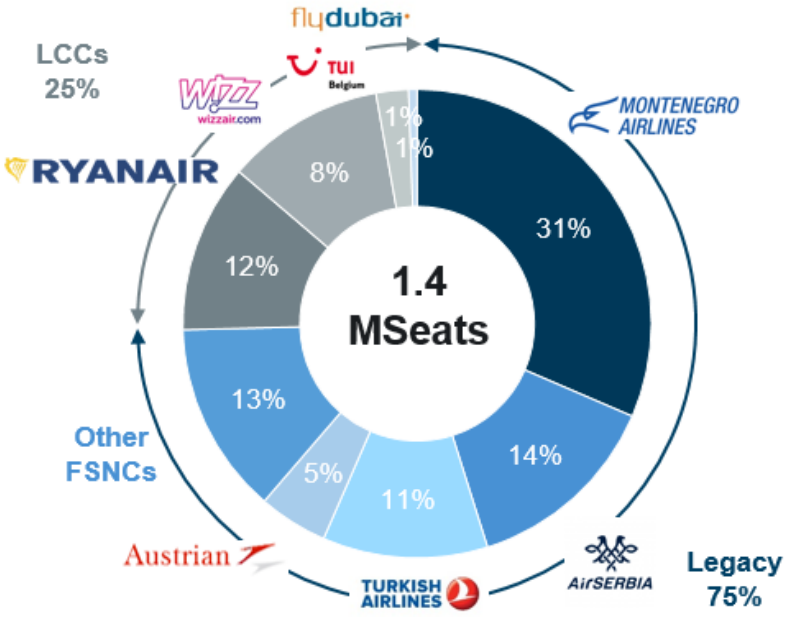


Figure 25 Scheduled Airline Market Share (Total supply - 2018)[29]

[28] Source: OAG
[29] Source: OAG

TGD has a relatively small network of short and medium haul destinations which has recently been enlarged due to the routes launched by LCCs. The top 3 routes account for c.50% of the total supply and these top routes are still highly dominated by FSNCs.

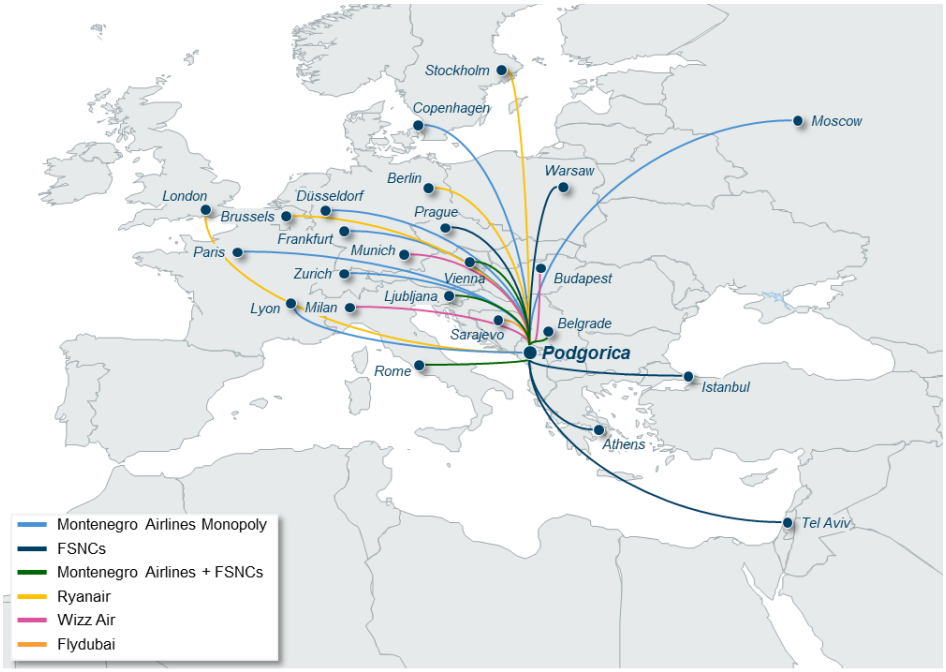


Figure 26 Routes served from TGD (2018)[30]

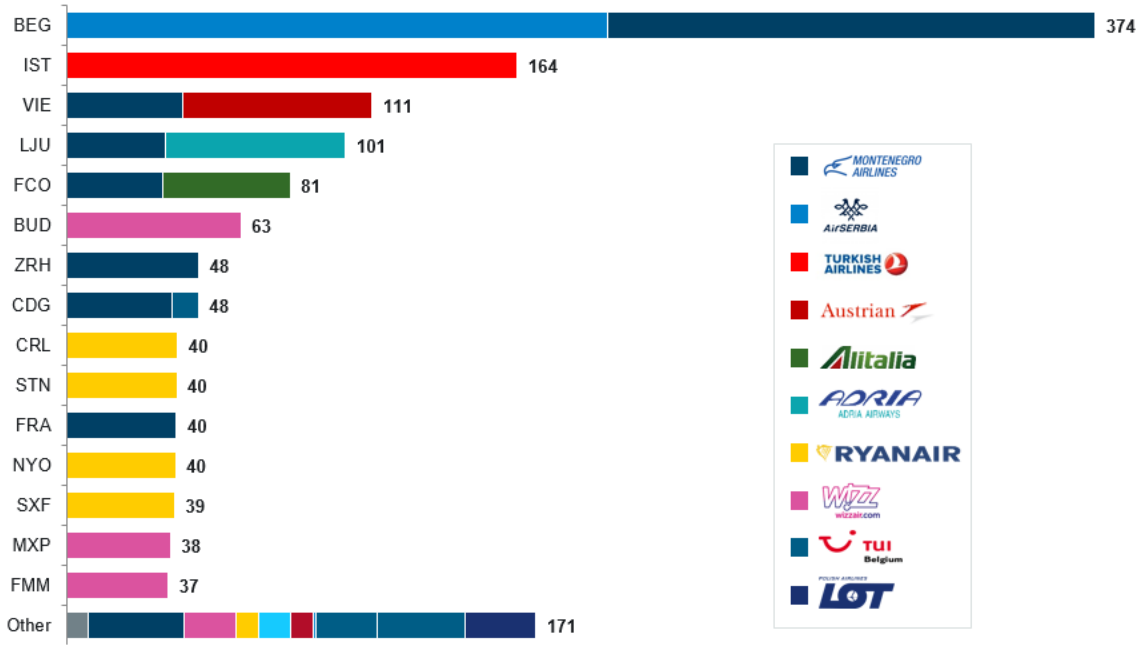


Figure 27 2018 Top 15 International Scheduled routes by airline at TGD (2-ways kseats)[31]

[30] Source: OAG
[31] Source: OAG

3 Traffic Forecasts

3.1 Forecast Approach

Due to the overlapping catchment areas, a top down methodology at a country level has been adopted as the most reasonable approach to determine traffic demand in Montenegro.

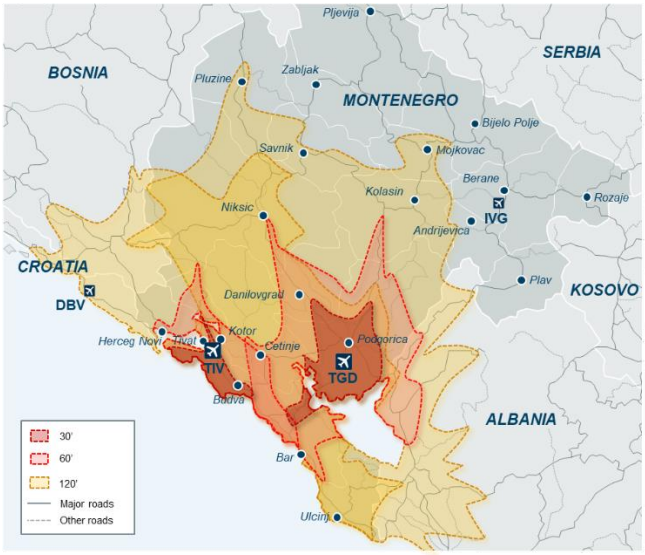


Figure 28 Natural catchment Areas for TIV and TGD[32]

The forecasting model is based on a linear regression methodology using historical data provided by Montenegro Airports; supplemented with additional data from MIDT. GDP is the main descriptive variable and blended GDP has been weighted in relation to the proportions of inbound/outbound traffic and the country of origin.

[32] ALG Analysis

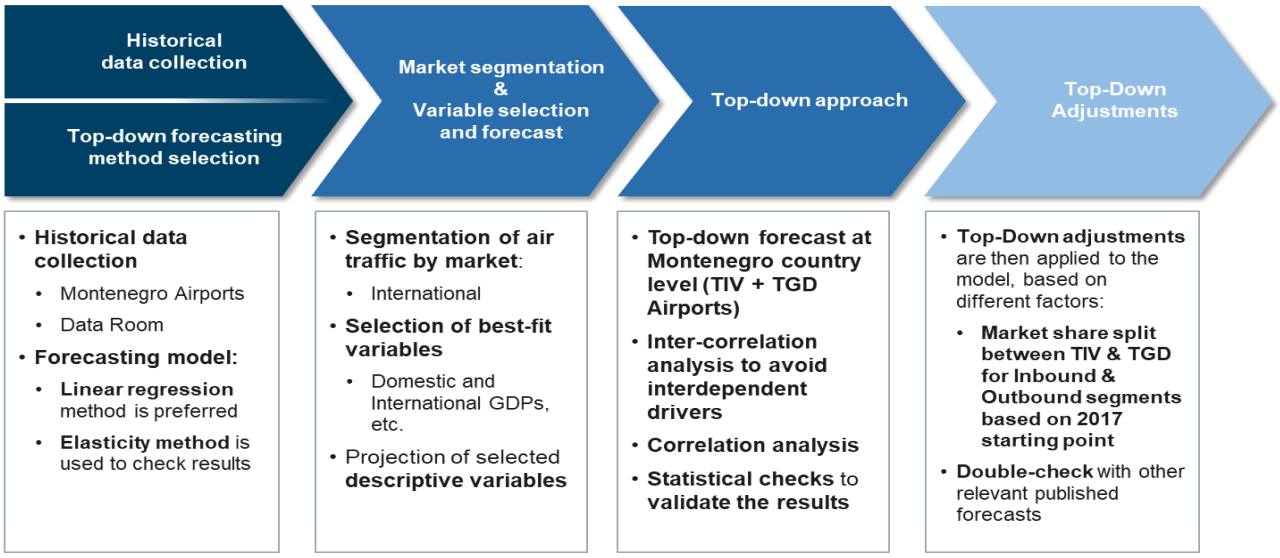


Figure 29 Air Traffic Forecast Methodology

3.2 Air Traffic Demand Forecasts

Future air traffic at Montenegro airports is expected to grow in line with the economic growth in source markets both in Eastern and Western Europe as well as in Russia. However, airfield constraints at Tivat are expected to limit its traffic, with some of the overflow being gained by Podgorica.

For TIV constrained growth of 3.5% CAGR (3.8% for Inbound & 1.2% for Outbound Traffic) is forecasted in the period 2018-2043. It is assumed that airfield capacity limitations will start to constrain TIV traffic growth from 2026 onwards.

	CAGR '07-'18	CAGR '18-'22	CAGR '18-'28	CAGR '18-'38	CAGR '18-'43	CAGR '33-'43
Inbound	N/A	8.5%	6.8%	4.5%	3.8%	1.6%
Outbound		6.1%	4.4%	2.0%	1.2%	-1.3%
Total TIV	7.3%	8.0%	6.4%	4.1%	3.5%	1.2%

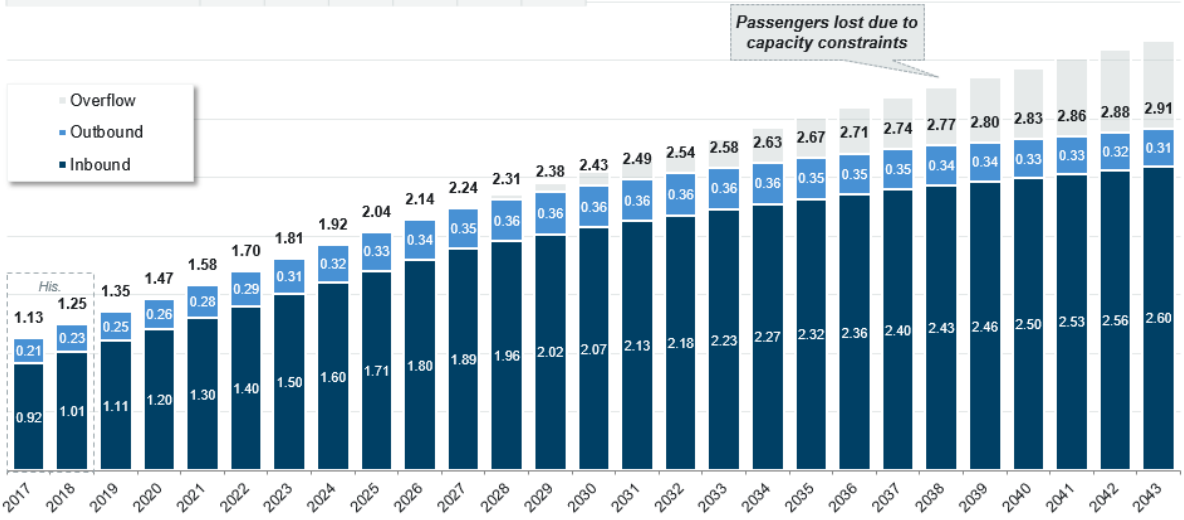


Figure 30 TIV passenger projection (Mpax)

Podgorica is assumed to capture 40% of Tivat overflow traffic (with the remaining % assumed to be 'lost' or captured by other resorts or other airports within the catchment area such as Dubrovnik). Resulting TGD growth of 4.5% CAGR (5.2% for inbound and 2.3% for outbound traffic) is forecasted during the period, reaching 3.63 Mpax by 2043.

	CAGR '07-'18	CAGR '18-'22	CAGR '18-'28	CAGR '18-'38	CAGR '18-'43	CAGR '33-'43
Inbound	N/A	7.4%	6.7%	5.7%	5.2%	3.8%
Outbound		5.0%	4.2%	2.9%	2.3%	0.5%
Total TGD	9.2%	6.6%	6.0%	5.0%	4.5%	3.1%

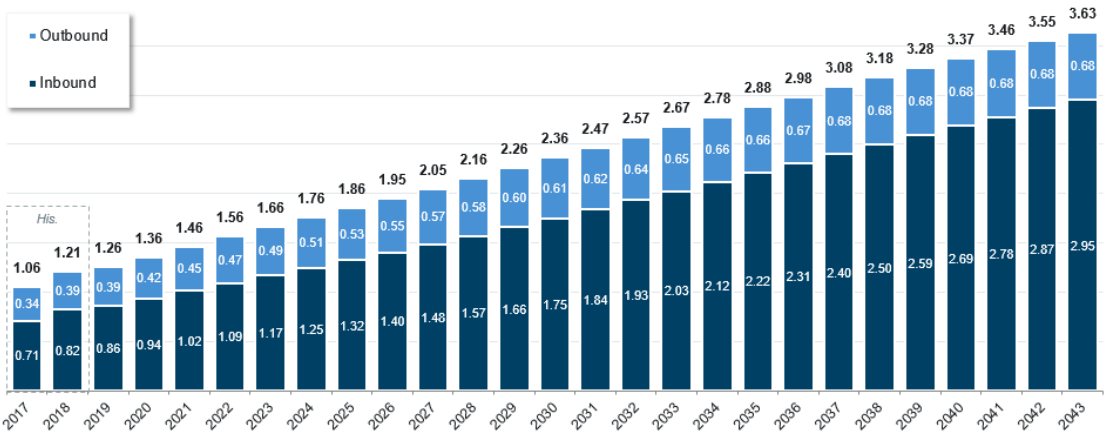


Figure 31 TGD passenger projection (Mpax)

ATMs projections at each airport have been calculated based on the estimated average pax/ATM evolution for each segment, which is are assumed to grow slower in TIV than TGD due to airfield constraints. Code C aircraft (with potential capacity constraints) are expected to be the largest A/C at TIV airport.

Around 24,500 annual operations are expected in TIV airport by the end of the forecast period (CAGR 2018-2043 2.4%)

	CAGR '07-'18	CAGR '18-'22	CAGR '18-'28	CAGR '18-'38	CAGR '18-'43	CAGR '33-'43
Commercial	4.0%	7.8%	6.1%	3.8%	3.2%	1.0%
General Aviation	3.9%	3.4%	1.3%	-1.9%	-3.6%	-8.1%
Total TIV	3.9%	6.9%	5.2%	3.0%	2.4%	0.2%

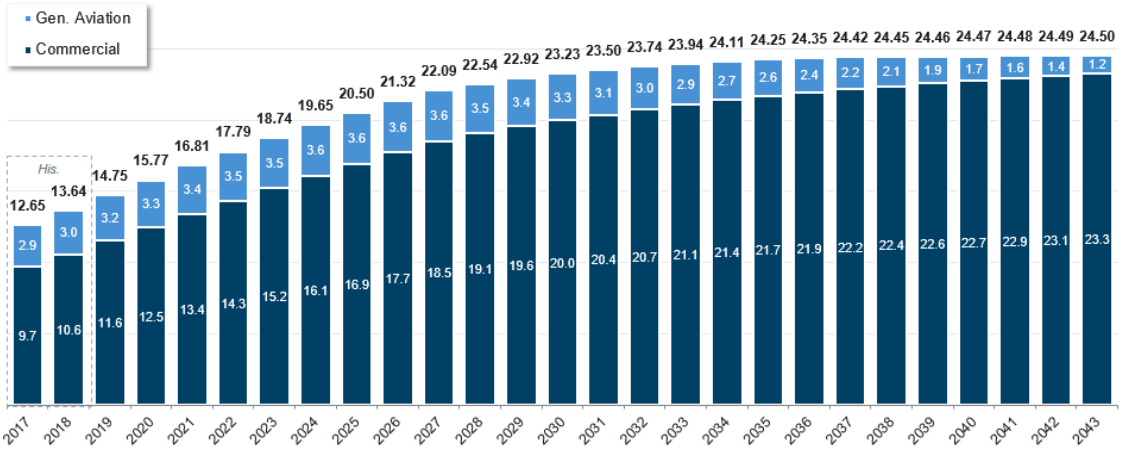


Figure 32 TIV aircraft projection ('000 ATMs)

Around 34,000 annual operations are expected in TGD airport by the end of the forecast period (CAGR 2018-2043 3.1%)

	CAGR '07-'18	CAGR '18-'22	CAGR '18-'28	CAGR '18-'38	CAGR '18-'43	CAGR '33-'43
Scheduled	3.3%	7.2%	5.5%	4.2%	3.7%	2.1%
Charter	5.6%	7.2%	5.5%	4.2%	3.7%	2.1%
General Aviation	3.1%	3.1%	2.2%	0.6%	-0.3%	-3.0%
Total TGD	3.5%	6.3%	4.9%	3.6%	3.1%	1.5%

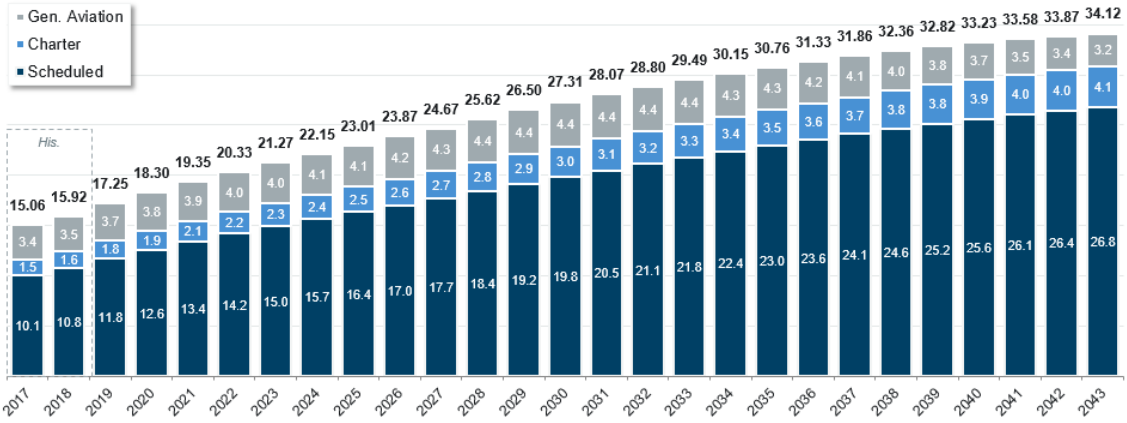


Figure 33 TGD aircraft projection ('000 ATMs)

In assessing the current and potential capacity of the airports, it is beneficial to assess the number of international passengers/ATMs that arrive on scheduled/charter flights during a one-hour period. The hour is determined to represent the typical heavy traffic for which a facility is designed.

As demonstrated in the figures below, TIV's capacity constraints are anticipated to begin limiting inflowing traffic by 2024. The projections illustrate how the peak hour capacity will plateau at 13 ATMs in 2024, and by 2036, the peak hour passenger forecast is set to plateau at 1,424 passengers. Discrepancy in time estimates of plateau result from ATM mix and the corresponding maximum capacity of passengers available in the projections.

	CAGR '18-'22	CAGR '18-'27	CAGR '18-'37	CAGR '18-'43	CAGR '33-'43
Total TIV	2.5%	2.2%	1.3%	1.0%	0.1%

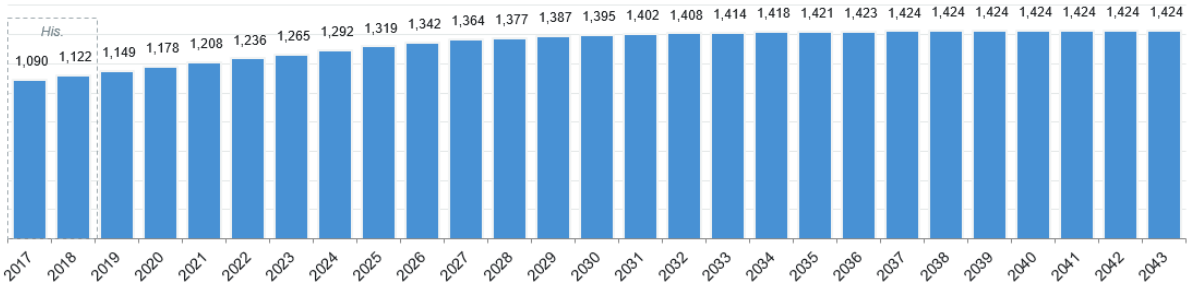


Figure 34 TIV Peak Hour Passenger Forecast (Pax)

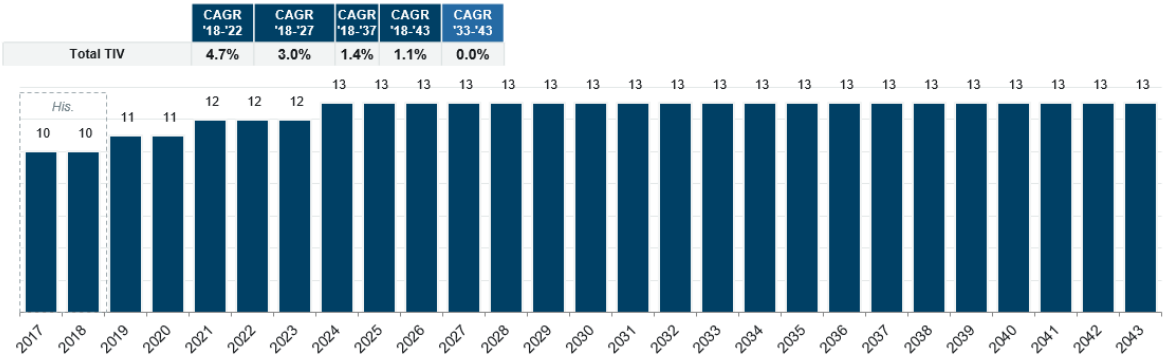


Figure 35 TIV Peak Hour ATMs Forecast

TGD's current infrastructure allows for more favorable projections of peak hour capacity. Growth is not hindered by infrastructural deficits, and peak hour passenger and ATM rates progress unimpeded.

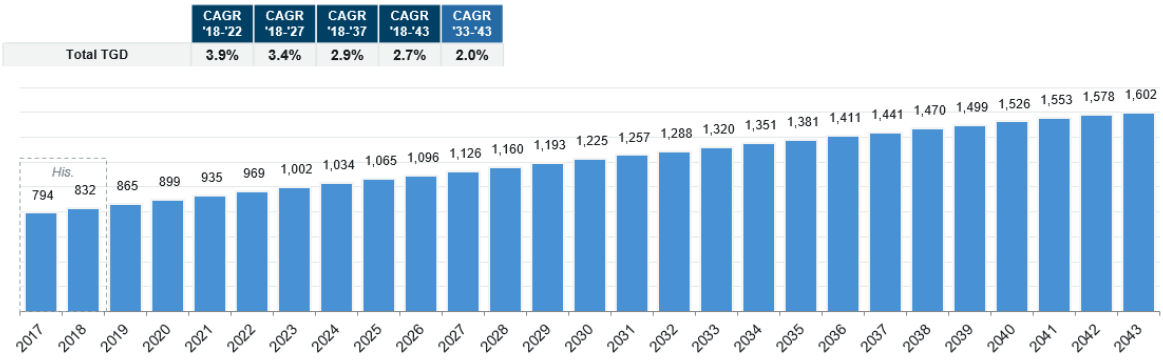


Figure 36 TGD Peak Hour Passenger Forecast (Pax)

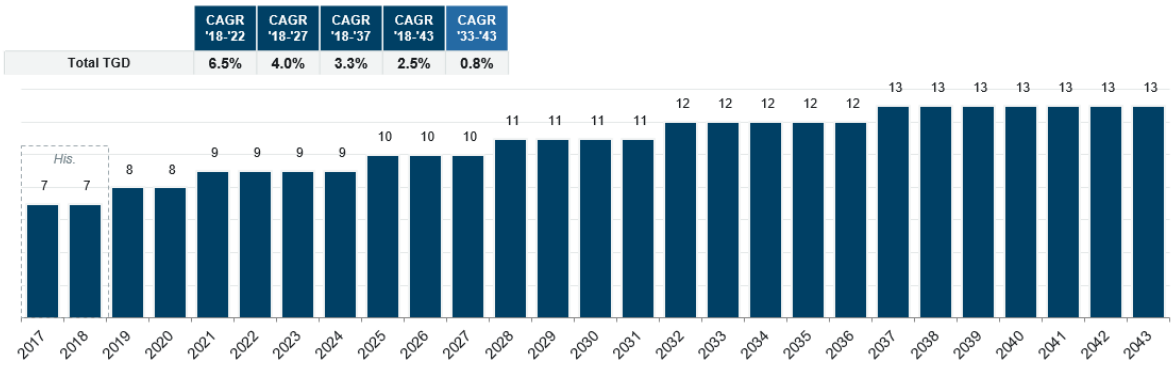


Figure 37 TGD Peak Hour ATMs Forecast

5 Infrastructure

1 TGD – Existing Facilities

2.1 Site

TGD is one of the only two airports in Montenegro offering services to commercial airlines, it is located 11km south of central Podgorica.

The ICAO code for Podgorica International Airport is LYPG, while the IATA code is TGD.

A major renovation and expansion took place in 2006, with a refurbishment and extension of the apron and improvements to the taxiway system, airfield lighting and power supply. An entirely new passenger terminal was opened on May 14, 2006, whilst the old passenger terminal underwent reconstruction and refurbishment in 2009 (and is currently used as administration offices).

TGD is a shared military facility with boundaries defined as per the figure below.

Figure 38 Boundaries of TGD Airport Site

2.2 Airfield

TGD has one runway which is 2,500 meters long and 45 m wide with 18/36 orientation.

Runway 36 has precision approach capabilities through a Category I Instrument Landing System (ILS) and complete approach lighting system whilst on Runway 18, non-precision approach is available through VOR /DME facilities and a simple approach lighting system.

Runway data is summarized in the following table:

	Runway 18	Runway 36
Runway length (m.)	2,500	
Runway width (m.)	45	
Threshold Elevation (m.)	37.2	25.9
Pavement Classification (PCN)	55/F/B/X/T	
Approach navaids – precision	N/A	ILS CAT I
Approach navaids – non-precision	NDB, VOR, DME and RNAV	
Declared distances (m.)		
Take off run available (TORA)	2,500	2,500
Take off distance available (TODA)	2,500	2,500
Accelerate stop distance available (ASDA)	2,500	2,500
Landing distance available (LDA)	2,500	2,500

Figure 39 RWY Characteristics at TGD[33]

There are no Runway End Safety Areas (RESAs) declared for either runway end. The implementation of RESAs at both ends of the runway will be part of the capital expenditure program planned at the beginning of the concession period.

The parallel taxiway is located at 200 m from the RWY 18/36 centerline. Only two sections of the parallel taxiway (Golf and Hotel) are 23 m in width, and taxiway shoulders are approximately 6 m. width, bringing the total paved width to approximately 29 m, which is compliant for Code C aircraft, but not for Codes D or E. The remainder (sections Juliet, Kilo and Lima) are 15 m in width, and they do not have shoulders.

As shown in the AIP (Aeronautical Information Publication), PCN values for the taxiway system vary between 32 and 70.

[33] Source: AIP

The apron includes 6 commercial aircraft stands (Code C aircraft) whilst the GA apron allows parking for 3 additional aircraft with a max span of 20 m. Hydrant network is not available.

The declared PCN values for the commercial apron are as follows:

- Positions 1 to 3: PCN 33/R/A/X/T (southern areas)
- Positions 4 to 6: PCN 105/R/A/X/T (northern areas)

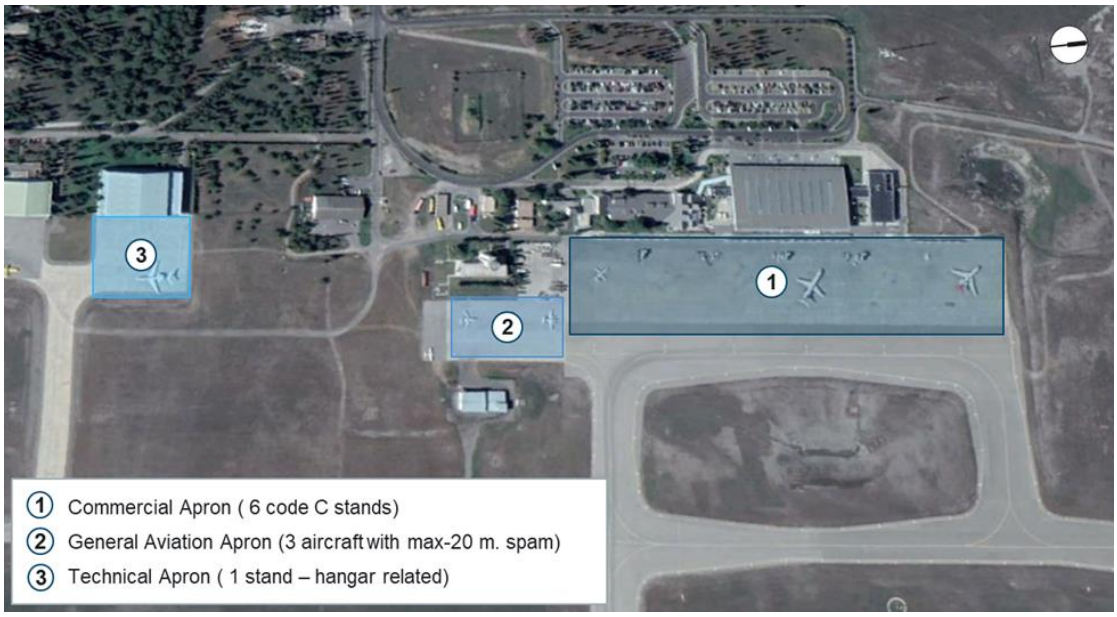


Figure 40 TGD Apron Configuration

2.3 Passenger Terminal Building

The existing passenger terminal building was built in 2006, its total area is approximately 5,500 m2. Its declared capacity is 600 passengers in the peak hour (1-way) for level of service Optimum corresponding approximately to 1 million annual passengers.

Figure 41 TGD landside façade, departures façade, arrivals façade of the passenger terminal

Departures areas in TGD consist of:

- Public departures hall and check in lobby, equipped with 8 check-in counters (no CUTE available)
- Departures Passport Control Positions in 2 booths (4 available positions) - all flights at TGD are international.

- The departures security control features 2 check points, each one with a metal detector arch and a screening X-Ray machine.
- There are 8 boarding gates, although each flight usually makes use of 2 gates, so the effective number of gates is 4. According to airport management sources the maximum handling capacity of this area is 4 commercial flights simultaneously. There is a Duty-Free Shop at the northern end of the boarding gates area and a small VIP lounge included in the departure gates area.

Figure 42 TGD Departure Areas - check-in-counters, security check point, boarding areas

The Arrivals lounge occupies the southern portion of the terminal building landside and main passenger processes comprise the following facilities:

- Arrivals Passport Control Positions in 3 booths (6 available positions), located before the security check point - all flights at TGD are international.
- There are no transfer passenger processing facilities at TGD. Arriving passengers that continue their trip to another destination need to proceed to the landside and go through the normal immigration and security processes as departure passengers. Note that there are no domestic to international transfers, as all traffic is international.
- There are 2 Narrow-Body baggage reclaim carrousels, both of flat-top type allowing the re-circulation of bags from the landside to the airside.
- The customs check includes an X-Ray machine.
- Public Arrivals Hall – common area shared with the Departures Hall

Figure 43 TGD Arrivals Areas - passport control positions, baggage claim and public arrivals hall

2.4 Airport Access and Visitors' Parking

Main airport access is from the E80 road and consists of 2 lanes – 2-way road. Airport traffic within the airport complex is regulated by one way-circular road in which parking and stopping of vehicles is not allowed – except for the specific indicated areas (1-minute stop only).

For longer stops or picking up incoming passengers, the parking lot for vehicles should be used at the locations shown in the image below.

There are about 400 available car parking spaces in the public parking lots (marked as #1 and #2 in the figure below).

Figure 44 TGD Ground Access and Car Parking Location

2.5 Airport Ancillary and Support Facilities

The Administrative building and the airport's offices are located in the old terminal building, south of the current terminal building. The building was renovated in 2009. There is a covered corridor that connects the passenger terminal building with the administration building. It also serves to process General Aviation and VIP passengers through a specific security checkpoint.

Figure 45 TGD Administrative Building

There is a small cargo terminal building and area south of the Administration Building, of 300 m2. Departing cargo is generally parcels and packages.

Figure 46 TGD Cargo Terminal Building

2 TIV – Existing Facilities

3.1 Site

TIV is located near the city of Tivat, 8 km from the center of Kotor, and 20 km north-west of Budva, the most popular tourist destination in Montenegro.

It is the busier of the two international airports in Montenegro, traffic at the airport follows the highly seasonal nature of the tourism industry in coastal Montenegro, with 75% of the total volume of passengers being handled during the peak season (May–September).

The ICAO code for Tivat international airport is LYTV, while the IATA code is TIV.

The boundaries of the site for TIV are illustrated in the figure below.

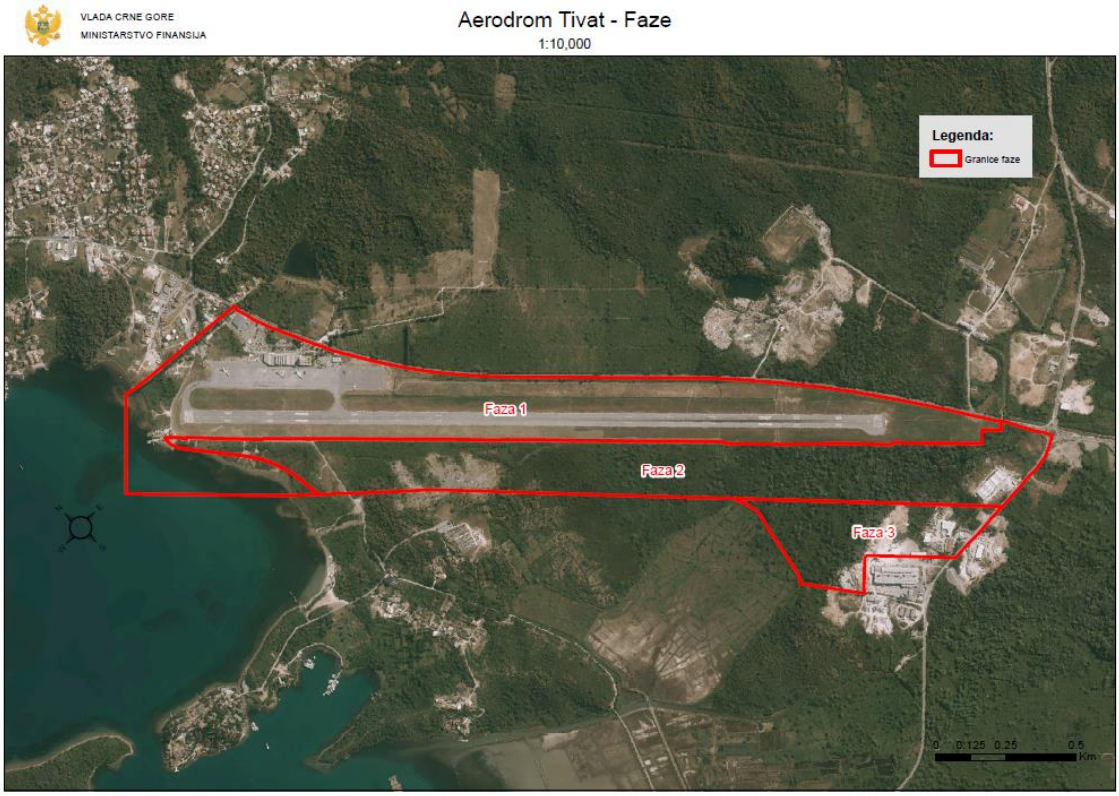


Figure 47 New Boundaries of TIV Airport Site

Currently certain areas within the airport fence such as northern strip areas, sections of the general aviation apron and ground transportation system (car parking and internal public roads) are not airport property but are the municipality's property.

3.2 Airfield

TIV has one runway which is 2,500 meters long and 45 meters wide with 14/32 orientation.

Runway 32 at TIV is equipped with a non-precision approach supported by a LOC ILS sub-system - it should be noted that, although there is an ILS sub-system at Tivat, there are no precision approach procedures for TIV.

Therefore, both runways in Tivat are non-precision. Approaches on runway 14 are extremely unusual given the surrounding obstacles which involve a very complex procedure.

Runway data is summarized in the following table:

	Runway 18	Runway 36
Runway length (m.)	2,500	
Runway width (m.)	45	
Threshold Elevation (m.)	2.4	4.9
Pavement Classification (PCN)	46/F/B/X/T	
Approach navaids – precision	N/A	N/A
Approach navaids – non-precision	ILS-LOC, NDB, VOR, DME and RNAV	
Declared distances (m.)		
Take off run available (TORA)	2,500	2,500
Take off distance available (TODA)	2,500	2,500
Accelerate stop distance available (ASDA)	2,500	2,500
Landing distance available (LDA)	2,500	2,500

Figure 48 RWY Characteristics at TIV[34]

There are no Runway End Safety Areas (RESAs) declared for either runway end. The implementation of RESAs at both ends of the runway will be part of the capital expenditure program planned at the beginning of the concession period.

There is no parallel taxiway. Taxiways Alpha and Bravo connect the runway with apron areas. Both taxiways are wide enough to hold operations of aircraft up to Code D, although certain adjustments are needed to ensure safety distances to object and shoulders surfaces.
As shown in the AIP (Aeronautical Information Publication), PCN varies between 20 and 33.
The apron includes 7 commercial aircraft stands:

- Positions 1 to 4 are able to accommodate aircraft with wingspans up to 33 m (ATR-72, EMB 195)
- Positions 5, 5A, and 6 are able to accommodate aircraft with wingspans up to 36 m (A-320, B738)

[34] Source: AIP

- Position 7 can accommodate aircraft with wingspans up to 52 m (B757, B767)

The general aviation apron stands (6 in total) can accommodate aircraft with wingspans up to 20m.

The apron pavement is made of asphalt, and its declared PCN value is 22/F/A/X/T, which is very low for C-type aircraft whose typical ACN values are in the range of 35 to 45, so a reinforcement of the apron pavement should be implemented.

The main issue with the apron layout is its lack of depth, which poses some restrictions for aircraft taxiing, especially when positions 1 to 4 are occupied.

Given that the distance between the apron inner taxiway centerline and the runway centerline is only 115 m; the taxiway should not be used whenever an aircraft Code Letter C or bigger is operating under IFR procedures on the RWY 14/32.

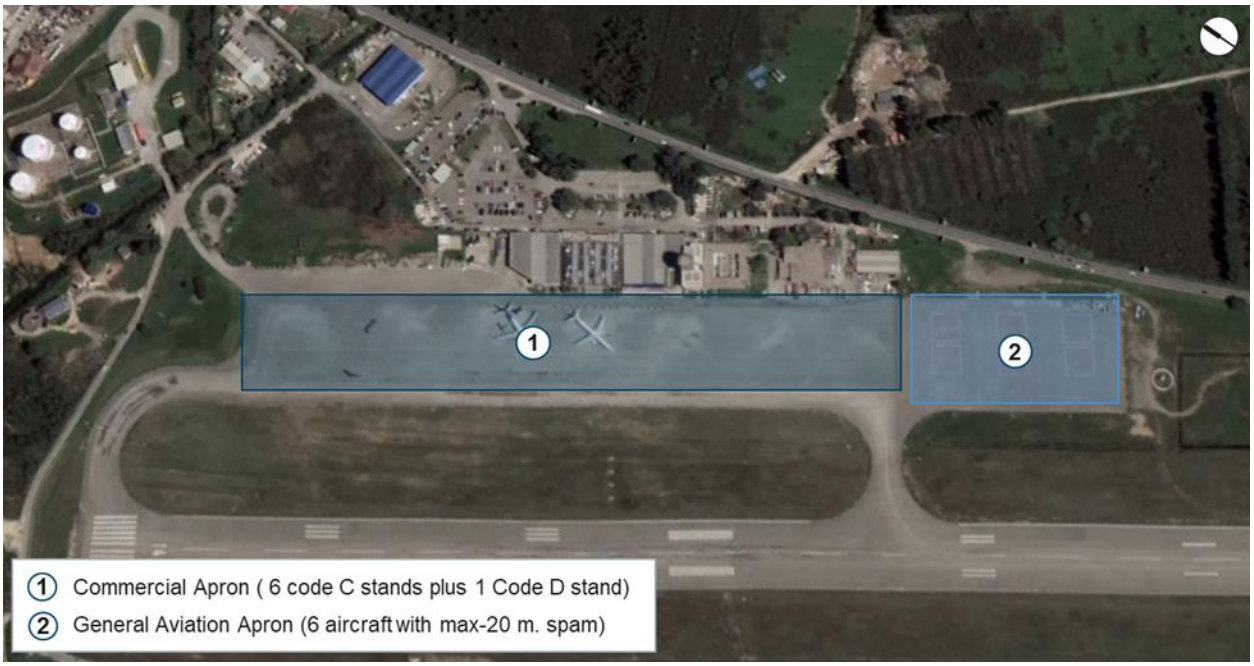


Figure 49 TIV Apron Configuration

3.3 Passenger Terminal Building

The passenger terminal building at TIV was built in 2006. Its total area is approximately 4,050 m2 on a single level, with departures located at its northern end, and arrivals at the southern end.

It was built as an expansion of the previous existing facility, which was some 800 m2 in area. The structure includes both concrete (old terminal) and steel structural elements.

The terminal building has been able to handle about 650 PHP (4 NB flights) during the 2017 summer season, although its declared capacity is, reportedly (according to EUROCONTROL), 400 passengers in the peak hour (1-way) for level of service Optimum corresponding to approximately to 1 million annual passengers.

Departures areas in TIV consist of:

- Public departures hall and check in lobby, equipped with 12 check-in desks
- The departures security control features 2 check points, each one with a metal detector arch and a screening X-Ray machine.
- Departures Passport Control Positions in 2 booths (4 available positions) - all flights at TIV are international.
- There are 6 boarding gates - although gate #1 is currently used for airport staff as an airside access.

Figure 50 TIV check-in counters, departure security check-point, boarding areas

Arrivals passenger processes comprise the following facilities:

- Arrivals Passport Control Positions in 3 booths (6 available positions), located before the security check point - all flights at TGD are international. Queuing is outside in an open-air area.
- There are no transfer passenger processing facilities at Tivat. Arriving passengers that continue their trip to another destination need to proceed to the landside and go through the same immigration and security process as departure passengers. Note that there are no domestic to international transfers, as all traffic is international.
- There are 2 Narrow-Body baggage reclaim carrousels, both of flat-top type allowing the re-circulation of bags from the landside to the airside.
- The customs check includes an X-Ray machine.

In December 2018, AoM opened a newly constructed Terminal 2 of TIV; the first investment into airport infrastructure since the terminal in TGD was upgraded in 2006. The new 3,000m^2 passenger terminal contains six check-in counters, two control lanes, a state-of-the-art luggage office, airline, police and customs offices. Total investment is valued at approximately EUR 3.5 million.

3.4 Airport Access and Visitors' Parking

Airport access is from the Tivat-Budva road and consists of an initial section of 2 lanes – 2 ways road followed by a one way-circular road.

Parking is limited given property constraints and car parking areas are currently owned and managed by the municipality.

Figure 51 TIV Ground Access and Car Parking Location

3.5 Airport Ancillary and Support Facilities

Administrative airport offices are located next to the ATCT. As well as the administration offices, the building holds the police offices, the “C” services, and the main staff access to the airfield. All GA and VIP passengers are processed in this building, where they pass security screening before entering the airside.

There is a small cargo building north of the apron, close to the fuel farm, and with direct access to the airfield.

6 Financial Analysis

1 EBITDA

Following two years of strong total revenues growth in 2017 and 2016 (15.1% and 15.5%, respectively), AoM peaked with the record revenues of EUR 37 million in 2018. This has resulted in an EBITDA of EUR 13.3 million on a margin of 36%, down from 42% in 2017. The main driver of the EBITDA growth, aeronautical revenues, has been offset in 2018 by a combination of increased staff-related expenses and augmented material expenses.

in EUR 000	2018	2017	2016	2015
Passengers	**2,454,524**	**2,185,857**	**1,852,710**	**1,644,949**
TGD	1,208,525	1,055,141	873,278	749,899
TIV	1,245,999	1,130,716	979,432	895,050
Revenues	**37,178**	**34,006**	**29,551**	**25,576**
Aeronautical	32,711	29,631	25,610	21,933
TGD	15,247	13,811	11,724	9,486
TIV	17,466	15,821	13,886	8,410
Non-Aeronautical	4,467	4,375	3,941	3,642
TGD	2,294	2,247	1,989	1,784
TIV	2,172	2,127	1,951	1,858
Costs	**23,877**	**19,791**	**17,821**	**17,382**
Staff	17,243	13,903	12,672	11,932
TGD	10,689	7,473	6,848	6,377
TIV	6,554	6,429	5,824	5,555
Non-staff	6,634	5,888	5,149	5,450
TGD	3,755	3,333	2,804	2,730
TIV	2,878	2,554	2,345	2,720
EBITDA	**13,301**	**14,215**	**11,730**	**8,194**
EBITDA Margin	***35.78%***	***41.80%***	***39,7%***	***32.00%***

Figure 52 EBITDA Build-up[35]

In the revenue structure in 2018, aeronautical revenues contribute most to overall revenues, at 87%. Aeronautical revenues have increased approx. 10% when compared to 2017. The number of passengers served has risen by 12% in the same period, whereas airplane traffic has increased by 6%, indicating a net increase in capacity utilization.

Amplified activity of LCCs has also contributed to an overall revenue increase in revenue in 2018; Ryanair by EUR 135k, Wizz Air by EUR 424k and EasyJet by EUR 15k.

[35] Source: Montenegro Airports (Financial Statements 2018; General Ledger 2015-2017)

Non-aeronautical revenues have recorded a 2% increase year-on-year in 2018, in the amount of EUR 92k. Within this category, an introduction of a business lounge tax in the amount of EUR 8 has led to 280% increase of this revenue position, in the amount of EUR 119k. An increase of EUR 91k (or 4%) has also been evident in concessional leases for duty-free shops; Regal (TIV and TGD), Almeco (TIV) and Coffee Cake (TGD). Parking fees have increased by EUR 28k (or 12%).

In 2018, Employee-related costs and expenses amount to EUR 17k, which is a 24% increase when compared to 2017. This is a direct result of a staff-compensation program agreed with Montenegro Airlines (EUR 1.309k) and a 26-employee net increase in headcount (EUR 1.630k).

Non-staff expenses increased by almost 13% and pertain amongst others to an increase in fuel costs in the amount of EUR 32k, an increase of material costs in the amount of EUR 155k and purchase of safety materials in the amount of EUR 46k.

The Airports historical financial performance resulted in EBITDA margins of approximately 35-40% in the last two fiscal years.

The following information includes comparisons of Montenegro airports operating results with a sample of airports within the Balkan geographical location. The data for the comparison was gathered from publicly available information.

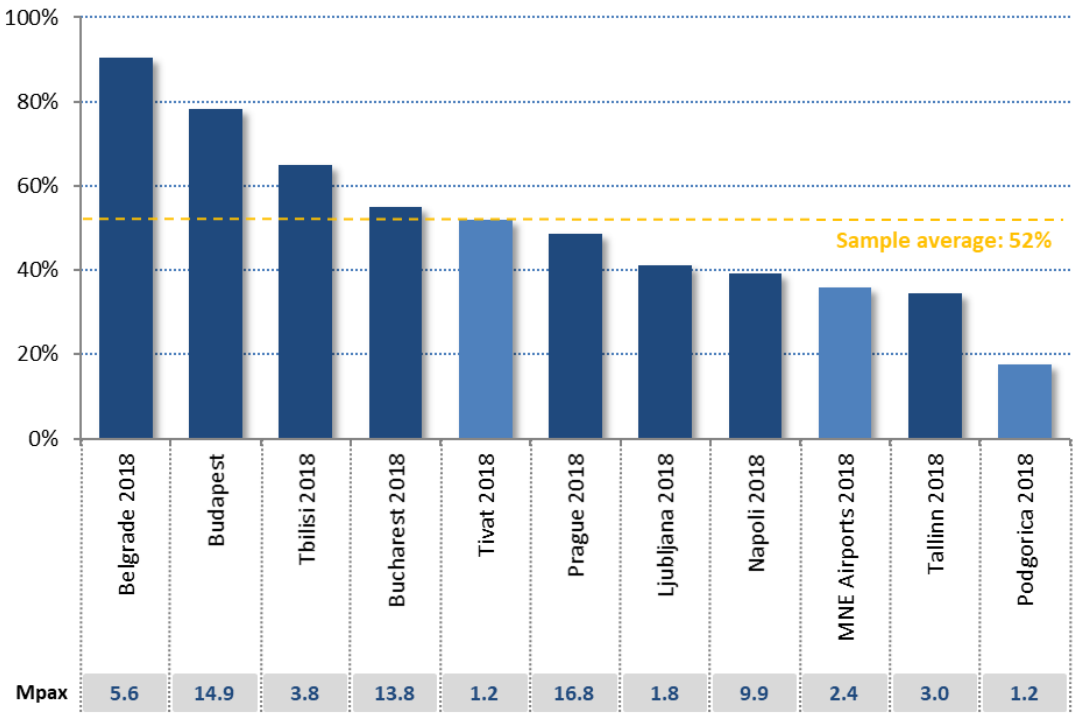


Figure 53 EBITDA margin (%) benchmark[36]

[36] Source: Airport financial information (public); please note that Tivat & Podgorica EBITDA results represented above do not include operational cost of current Montenegro Airports Central Administration and taxes, depreciation, claims and others have been removed from the airport expenses.

2 Analysis of Historical Aeronautical Revenues

The current schedule of aeronautical charges is included in Annex [1]. Nevertheless, AoM has negotiated contracts with special terms and conditions with each airline. For instance, Ryanair and Wizz Air have their own negotiated “flat rate” charges applied per departing passenger.

Aeronautical revenues have been growing 10.4% and 15.7% in 2018 and 2017 respectively. The main driver is the growth in traffic at both airports, accompanied by the tariff set at a level comparable with other airports in Eastern Europe. Total combined published aeronautical charge per departing passenger at Montenegro Airports is EUR 21.4.

‘Flat Rate’ makes reference to the specific charge applied to certain airlines with negotiated contracts (such as Ryanair and Wizz Air) who instead of paying the various published service charges separately, pay a negotiated "flat-rate" per departing passenger.

Aeronautical revenues m EUR	TGD		TIV	
	Revenues	% of total aeronautical revenues	Revenues	% of total aero revenues
Flat-rates	1.88	13.6%	0	0.0%
Passenger Service Charges (PSC)	6.26	45.4%	8.31	52.5%
Security	0.73	5.3%	0.97	6.1%
Passenger with Reduced Mobility (PRM)	0.1	0.7%	0.14	0.9%
Landing	2.51	18.2%	2.95	18.6%
Lighting	0.15	1.1%	0	0.0%
Parking	0.02	0.1%	0.07	0.4%
Centralized infrastructure	0.85	6.2%	1.07	6.8%
Handling	1.23	8.9%	2.29	14.5%
Others	0.07	0.5%	0.02	0.1%
Total aeronautical revenues	**13.8**		**15.82**	

Figure 54 Aeronautical Revenue Build-up by Airport[37]

[37] Source: Airports of Montenegro Financial Data 2017 [A breakdown of aeronautical revenues by airport for FY 2018 was not available at the time of preparation of this memorandum]

3 Analysis of Historical Non-Aeronautical Revenues

Non-aeronautical revenues are generated from a variety of sources, with the majority of commercial revenues derived from duty free and retail concessions, (these revenues accounted for 46% and 72% of the total non-aeronautical revenues in Podgorica and Tivat in 2017).

Non-aeronautical revenues are an exceptionally low proportion considering their percentage with respect to total revenues (14% in TGD and 12% in TIV compared to an industry global average of 40%). This indicates significant potential for optimization under the management of an experienced operator.

This low non-aeronautical revenue is due to a number of factors including low passenger numbers, constrained terminal space that results in undeveloped commercial activities, undeveloped real estate space, and specifically for Tivat, no parking revenues (as this is currently operated by the municipality).

The largest non-aeronautical revenue category for both airports is “Retail” (46% in TGD and 72% in TIV), followed by “Real Estate” (22% in TGD and 19% in TIV).

Non-Aeronautical revenues t EUR	TGD					TIV				
	2016	2017	€/pax 2016	€/pax 2017	% mix 2017	2016	2017	€/pax 2016	€/pax 2017	% mix 2017
Retail	828.6	1,029.1	0.95	0.98	46%	1,297.3	1,524.0	1.32	1.35	72%
Car Parking[38]	201.9	243.0	0.23	0.23	11%	0.0	0.0	0.00	0.00	0%
Lounges	68.0	83.0	0.08	0.08	4%	0.0	0.0	0.00	0.00	0%
Real Estate	474.0	501.1	0.54	0.47	22%	403.7	408.9	0.41	0.36	19%
Taxis	48.2	73.5	0.06	0.07	3%	85.9	108.0	0.09	0.10	5%
Manipulation of Goods	136.9	150.4	0.16	0.14	7%	3.1	5.1	0.00	0.00	0%
Other Commercial Revenues	146.3	87.0	0.17	0.08	4%	76.5	36.0	0.08	0.03	2%
Other Commercial Services	33.8	36.3	0.01	0.01	1%	13.8	10.3	0.01	0.01	0%
Other Commercial Refunds	51.2	43.9	0.06	0.04	2%	70.8	33.7	0.07	0.03	2%
Total Non-Aeronautical Revenues	**1,988.8**	**2,247.4**	**2.28**	**2.13**	**100%**	**1,951.1**	**2,125.9**	**1.99**	**1.88**	**100%**

Figure 55 Non-Aeronautical Revenue Build-up by Airport[39]

[38] The car parking at Tivat is not currently operated by the AoM, but by the municipality of Tivat.
[39] Source: Airports of Montenegro Financial Data 2017 [A breakdown of non-aeronautical revenues by airport for FY 2018 was not available at the time of preparation of this memorandum]

4 Analysis of Historical Operating Expenses

Overall operating expenses have increased 11% and 10% at Podgorica and TIVs in 2017, respectively. Employee and other staff related expenses represent the highest portion of operating expenses with 69% of overall OpEx at Podgorica, and 72% at TIV. Temporary staff are significantly more present at TIV contributing 12% to total staff costs due to the pronounced seasonality of the airport as a summer tourist destination. Temporary staff are employed to cover a shortage in regular staff during the summer schedule.

All other operating expenses, apart from depreciation and amortization, are relatively inconsiderable and are far below industry averages in benchmark peer groups.

Operating Expenses t EUR	TGD			TIV		
	2016	2017	% mix 2017	2016	2017	% mix 2017
Material Costs	531.3	663.2	6%	360	327	4%
Staff Costs (Permanent)	6,750.4	7,026.4	65%	4,936	5,237	58%
Staff Costs (Temporary)	0.0	316.1	3%	816	1,078	12%
Staff Costs (Other)	98.2	130.8	1%	72	114	1%
Transport Costs	83.1	71.6	1%	39	46	1%
Maintenance	82.5	143.8	1%	169	136	2%
Land Lease	0.0	0.0	0%	42	42	0%
Marketing	352.4	542.1	5%	355	476	5%
Utilities	218.4	249.4	2%	216	248	3%
Transaction Fees	20.0	25.9	0%	20	24	0%
Taxes and Municipal Fees	54.4	53.2	0%	53	52	1%
Membership Fees	31.2	33.4	0%	30	32	0%
Insurance Costs	54.2	84.4	1%	39	58	1%
Depreciation & Amortization	1,313.6	1,335.6	12%	955	972	11%
Donations and other related costs	62.7	130.9	1%	67	135	2%
Total Operating Expenses	**9,652.5**	**10,806.7**	**100%**	**8,168.3**	**8,983.6**	**100%**

Figure 56 Operating Expenses Build-up by Airport[40]

[40] Airports of Montenegro Financial Data 2017 [A breakdown of operating expenses by airport for FY 2018 was not available at the time of preparation of this memorandum]

5 Montenegro Airlines

Montenegro Airlines is the flag carrier of Montenegro, with headquarters in Podgorica. It operates scheduled and charter services throughout Europe from its hub at TGD with a second base maintained at TIV. As of July 2018, Montenegro Airlines serves 21 destinations in Denmark, France, Germany, Italy, Russia, Austria, Slovenia, Serbia, Switzerland and the United Kingdom. Montenegro Airlines serves around one-third of all passengers at Tivat and Podgorica.

Deriving from MA semi-annual report covering the first 6 months of 2018, the financial performance of the company has improved by EUR 1.42 million when compared to the same period last year, which, in financial terms, is the best result over the past four years.[41]

Presenting the commercial results of business for the first half-year, CEO Živko Banjević said Montenegro Airlines had transported a quarter of millions or 250,746 passengers in the first six months of 2018, hence 21,089 or 9.18% more compared to the same period last year, when the number of passengers was 229,657. This realized growth is more than any other airline from the former Yugoslavia, such as Adria Airways or Air Serbia. The average cabin load factor was 63%, which is 2% higher than the first semester of the previous year, when it was 61%.

This result was achieved with 3213 flights in regular and charter traffic, which is 202 flights more compared to the 6-month period last year, and with a fleet of 6 aircraft.

In the first six months of 2018, MA transported 27.56% of the total number of passengers that passed through the airports of Montenegro. A total of 910,000 passengers were served through the airports of Montenegro in this period.[42]

MA decided to engage a sixth aircraft in its fleet as part of a commercial strategy to intensify the frequency of flights to all destinations. Changes in management and corporate governance signify a revival of Montenegro Airlines in regional air traffic as competition strengthens amidst entry of low-cost carriers to the region.

The Board of Directors also presented information about business performance during July and August of this year, which were the most successful in the history of the company. Montenegro Airlines transported 98,297 passengers in July, and 104,861 in August. In July, EBITDA was positive at EUR 1.4 million, while in August earnings stood at EUR 1.5 million.

The Board of Directors has made the decision to engage in staff restructuring in order to optimize the number of employees in accordance with the company's needs. These measures anticipate a reduction of staff from over 400, down to 250 employees over the restructuring phase.

[41] Montenegro Airlines semi-annual report 2018
[42] Airports of Montenegro semi-annual report 2018

7 CAPEX Program

The CapEx program will entail capital improvements that are considered necessary to meet demand and Level of Service (LoS) requirements throughout the proposed 30-year concession period. The intention of the GoM is to spur long-term airport infrastructure development in line with Master Plans (see Annex [2]) for TGD and TIV adopted in 2011. The development is envisaged to unfold over several phases, with the first phase of development amounting to no less than EUR 80 million over the initial 3 years following the effective date of concession validity. All capital investments will be compliant with applicable Montenegrin laws, standards and regulations as well as ICAO Standards.

8 Transaction Structure

Parameter	Definition
Concession Grantor	The Government of Montenegro
Concessionaire	A limited liability company incorporated by the winning bidder for the purpose of realizing the concession agreement
Concession Type	Design-Build-Finance-Operate-Transfer
Concession Duration	30 years
Scope of the Concession	The Concessionaire will take over in full the operations and development, as the case may be, of the civil aviation activities with respect to airport services at Podgorica International Airport, both airside and landside, and Tivat International Airport, both airside and landside.
Concessionaire structure	Shareholders of the Concessionaire at execution date of the agreement (i) may not transfer their shares for a period of 2 years from construction completion, (ii) must hold at least 51% of the share capital for 7 years from the construction completion, and (iii) must hold at least 25% of the share capital for the following 5 years. The airport operator shall be required to hold 10% of the share capital of the Concessionaire and shall be required to hold it for a period of 10 years from effectiveness.
Airports' ownership	The GoM will remain the owner of all immovable property. The entire Montenegro Airports and all movable and immovable property will be returned to GoM at no cost upon expiry of the Concession, or early termination subject to compensation for early termination.
Airports' Sites	The right of use of the sites for the Montenegro Airports will be granted by the GoM to the Concessionaire, directly through the concession agreement, free of any encumbrances
Concessionaire's rights and obligations	Concessionaire's rights and obligations during the term of the concession will include: • Right to develop, operate and maintain the Montenegro Airports, both airside and landside • Right to capture all aeronautical and commercial revenues generated by the Montenegro Airports' operations. • Obligation to undertake the operations and management of all services at the Montenegro Airports in accordance with key performance indicators stipulated in the concession agreement, to undertake all routine and capital maintenance and to be responsible for all associated costs • Obligation to optimize the capacity of the Montenegro Airport and right to enter into commercial contracts to generate non-aeronautical revenues,

	• Obligation to build and finance the refurbishment and expansion of the airside and landside infrastructure at the Montenegro Airports: - To be compliant with Montenegro and ICAO, and - To be expanded from time to time based on traffic and service level triggers, and • Obligation to operate and develop the airport in line with IFC environmental and social Performance Standards and the associated Environmental, Health and Safety guidelines.
GoM's obligations	GoM's obligations during the term of the concession will include: • Providing Montenegro Airports' Sites free of encumbrances • Providing reasonable assistance to the Concessionaire to obtain certain required permits, authorizations and approvals • Providing reasonable assistance and cooperation to manage interface issues and ensure availability of ancillary infrastructure, including coordination with Ministry of Defense, Municipalities, government-owned utility providers, as well as other ministries and government agencies on an as-needed basis, and • Provide and coordinate the provision of certain key services such as ATC (SMTSA), security, immigration, customs
Revenue Share	The Concessionaire will pay to the GoM: • a percentage share of gross revenue to be at least 10%, and • an upfront fee to be at least EUR100M Gross Revenue means, for any Concession Year, the sum of the aggregate gross revenues received by the Concessionaire deriving from aeronautical revenues and from non-aeronautical revenues, and any and all amounts received or receivable from sales and services which the Concessionaire would or should credit or attribute to the airports' business.
Aeronautical revenues	The Concessionaire will have the right to collect and retain all aeronautical revenues.
Non-aeronautical revenues	The Concessionaire will have the right to enter into new commercial contracts within the scope of the concession agreement to optimize the capacity of the Airports to generate revenues. This will include developing additional commercial activities and services customarily conducted at Airports such as duty free, advertising, retail, food and beverage, car parking, business parks, hotel, convention center, subject to GoM making sufficient land available for this purpose, and GoM opining on the allowed commercial activities at the Airports. The Concessionaire will be assigned the existing contracts which have not been terminated by AoM prior to the commencement date of the concession agreement (subject to third party approval). Rates for non-aeronautical activities will be market driven.
Fossils and Antiquities	Fossils or antiquities shall remain the property of the GoM. Discovery of fossils and antiquities causing suspension or delay of the works shall allow the Concessionaire to be entitled to extension of time.
Pollutions Events	Any expenses and costs incurred by the Concessionaire in respect of any pollution events other than preexisting environmental conditions (i.e.

	existing before the commencement date) shall be borne by the Concessionaire.
Performance security	Bid bond upon submission of bid, valid until preferred bidder selection, and a closing bond upon preferred bidder selection, effective until financial close. These bonds will be defined in the instructions to bidders at the proposal stage (RFP). Performance security to cover construction obligations and effective until 120 days after the expiry of the defect's liability period of 2 years from construction completion [level to be specified in the RFP]. Performance security during operation phase and effective from financial close until 180 days after early termination or expiry [level to be specified in the RFP]. [Other performance security requirements to be specified in the RFP]
Key Performance Indicators	The Concessionaire shall operate and maintain the Montenegro Airports and perform the services in accordance with certain minimum technical requirements (associated with key performance indicators) to cover (non-exclusive, indicative, list): • Passenger level of service as per recognized international standards and good practice such as IATA; • Passenger ASQ survey; • Availability of equipment and facilities; and • Runway delay not attributable to SMATSA
Government Users	Certain Government agencies (custom, immigration, etc.) will continue to perform their respective services at the Montenegro Airports and will continue to be allocated the space they require to perform such services free of charge. To the extent possible these Government entities shall enter into service level agreements with the Concessionaire
Airports of Montenegro employees	The Concessionaire shall offer to permanent employees (652 in total as of the date of preparation of this document) an employment contract on comparable terms as their existing contracts with Airports of Montenegro, from the effective date of the concession. In certain areas such as fire and rescue, employment offers may be subject to employees passing a fitness test.
Utilities	The Concessionaire shall at its sole cost and expense make arrangements with the relevant entities for the adequate supply of power, water, waste and wastewater management, telecoms. Utilities will be provided for free to Government users operating at the Montenegro Airport (reasonable usage).
MoT access	MoT and its advisors and representatives shall be entitled to access the Montenegro Airports without disturbance of normal operations to (non-exhaustive list): • Observe the activities of the Concessionaire • Monitor compliance with the concession agreement and the KPIs • Monitor service levels, and Monitor the volume of passengers
Reporting requirements	The Concessionaire will be obliged to provide periodic reports, such as (non-exhaustive list):

	• Annual operating budgets • Annual financial statements, • Quarterly certification of gross revenue • Quarterly operational reports Environmental studies
Independent Engineer	An independent engineer shall be appointed by the parties to monitor the construction works and provide certifications with respect to construction completion.
Montenegro Airline Payment	To the extent feasible under Montenegrin law, the GoM shall ensure that Montenegro Airlines will pay its due fees and charges and debts to the concessionaire in accordance with state aid rules.
Force Majeure	Any event or circumstance or combination of events or circumstances: • Beyond the reasonable control of the affected Party • Which was not foreseeable, or if foreseeable, could not have been avoided • Which materially and adversely affect the affected party • Which is not the direct result of a breach by the affected party Example: lightning, fire, earthquake, tsunami, strikes, political events persisting for over 14 days and occurring outside Montenegro (war, embargo…) but affecting the project
Consequence of Force Majeure	• Concessionaire can apply for relief of its obligations • Concessionaire can apply for extension of time to complete Works • Concessionaire cannot get relief from paying the concession fee; if the Force Majeure event prolongates for 6 continuous months, either Party may terminate the agreement
Material Adverse Government Action (MAGA)	Closed list: • Failure to grant or renew consents, • the construction of a new international airport with scheduled commercial services in Montenegro • Expropriation • Instructions from GoM on further process of Antiquities • Act of war in Montenegro • Act of GoM affecting the legality, validity, enforceability and binding nature of the Concession Agreement
Consequence of MAGA	• Concessionaire can apply for relief of its obligations • Concessionaire can apply for compensation of additional costs incurred or revenue lost • If the MAGA prolongates for 6 continuous months, either Party may terminate the agreement
Qualifying Change in Law	• Discriminatory change in law which applies expressly to the project, the concessionaire, private partners in PPPs • Specific change in law which specifically refers to the provision of airport services or to the holding of shares in companies whose main business is to provide airport services • General change in law which is not discriminatory or specific coming into effect from the final bid date which requires capital expenditure.

Consequence of a Qualifying Change in Law	Concessionaire can apply for compensation of additional costs incurred or revenue lost and propose necessary amendment to the scope of Services caused by the qualifying change in law.
MoT Termination Rights	MoT's termination rights to include: • Concessionaire Event of Default (failure to make payment, performance failure, material breach, and others to be listed in the concession agreement), • A force majeure or political event has been continuing for 180 days • A MAGA prolongates for 6 continuous months, or • Public interest reasons
Concessionaire Termination Rights	The Concessionaire's termination rights to include: • a grantor event of default • a force majeure has been continuing for 180 days, or • a MAGA prolongates for 6 continuous months
Termination Payments	Termination for Force Majeure: MoT shall pay or assume 100% of outstanding debt, and Pay net equity less any insurance proceeds paid to the Concessionaire Termination for Concessionaire default: MoT shall pay, or assume, 90% of the outstanding debt, provided that if termination occurs prior to completion of the initial construction program, a further haircut may be applied Termination for MoT Default, MAGA or for public interest GoM shall pay or assume 100% of the outstanding debt, pay amount of equity funded (less monies paid to shareholders) plus return on equity, pay termination costs determined by an expert (contract breakage costs etc.)
Governing Law and Dispute Resolution	The applicable law will be the law of Montenegro Disputes resolution mechanism in accordance with ICC rules, neutral place of arbitration.

9 Tender Procedure

The MoT is conducting a transparent, competitive, two-stage bidding process for the selection of the Concessionaire for the Montenegro Airports.

A Request for Qualification (RFQ) setting out the timetable for the bidding process, the prequalification criteria, bidding rules and instructions to bidders to prepare and submit a response has been issued, in accordance with Montenegrin law and among others, publicly, on [October 11th 2019] on http://www.minsaob.gov.me/en/ministry/Airports-Montenegro-Concession.

Upon selection of the qualified bidders, the MoT will invite only those qualified bidders to participate in the second stage of the tender, by issuing a Request for Proposal (RFP). The RFP shall set out the timetable for the bidding process, the selection criteria, bidding rules and instructions to bidders to prepare and submit a response. The RFP shall also include the Concession Agreement and those ancillary project documents necessary to realize the Transaction.

The approach to the evaluation of the proposals for the selection of the winning bidder is envisaged to be as follows:

- Evaluation of the technical proposal based on scoring of objective criteria; and:
- Evaluation of the financial proposal based on scoring of the highest concession fees.

The winning bidder shall be the bidder offering the most economically advantageous proposal for the GoM.

CONTACT

IN ACCORDANCE WITH THE RFQ,

THE MOT CAN BE REACHED AT:

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SECRETARY OF THE TENDER COMMISSION
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