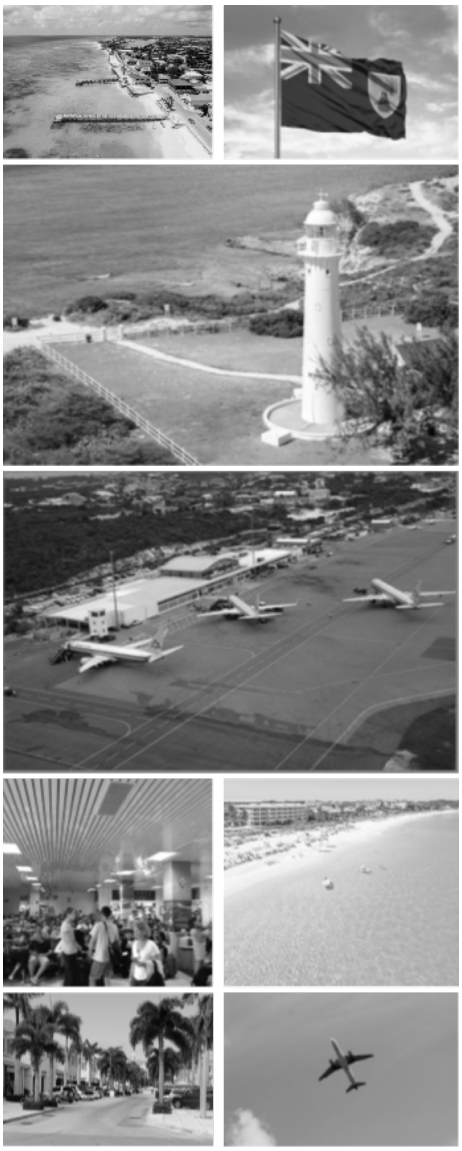


THE
GOVERNMENT OF THE
TURKS & CAICOS ISLANDS

TURKS AND CAICOS ISLANDS
AIRPORTS AUTHORITY

INTERMEDIATE INFRASTRUCTURE BUSINESS CASE

4th May 2023

FOR THE REDEVELOPMENT OF THE HOWARD HAMILTON INTERNATIONAL AIRPORT (PROVIDENCIALES INTERNATIONAL AIRPORT)

Turks and Caicos Islands Airports Authority

Contents

Index of tables

Index of figures

Foreword and Purpose

It is the pleasure of the TCIAA and the Government of the Turks and Caicos Islands itself to present this Intermediate Business Case for the proposed airport PPP project under the UK Government International Guidance for Infrastructure Business Case. It is important to note that this Intermediate Business Case is being presented in compliance with the Public Procurement Ordinance and need for approval before moving the Procurement Stage of the Project.

The project team and its advisors have demonstrated a remarkable level of advance and robustness in their analysis and planning for the project. As such, this Intermediate Business Case represents a critical milestone in the development of the airport PPP project, building on earlier feasibility studies and providing a more detailed analysis of its potential benefits for the society and the economic development but also a thorough assessment of the project-related risks.

The proposed airport PPP project has the potential to make a significant contribution to the national economy, creating jobs, boosting tourism, and improving transport links. However, the success of the project depends on careful planning and robust analysis, which this document aims to provide.

The purpose of this Intermediate Business Case is to provide a detailed assessment of the proposed airport PPP project's feasibility, value for money, risks, and opportunities. The UK Government International Guidance for Infrastructure Business Case requires a rigorous approach to business case development, ensuring that projects are well-planned, carefully analysed, and represent value for money for taxpayers.

The objectives of this Intermediate Business Case are summarized as follows:

1. Substantiate the need for an urgent redevelopment of the Howard Hamilton International Airport subject to the following strategic considerations:
    a. Maintain the role of Turks and Caicos Islands as the preferred luxury destination, as top choice for the high-value tourism that results on a unique value proposition and strategic goal of the country;
    b. Implement the required actions on the national transportation nodes (in particular, the main gateway for air travellers) as ultimate facilitators of tourism development;
    c. Solve the current capacity issues that the actual airport infrastructure is facing, to absorb the foreseeable touristic demand, under a flexible and scalable development model that maximizes value for money and ensures a rationalized development of the airport infrastructure whilst still providing the required level of service to passengers;
    d. Introduce international expertise and know-how to the country in relation to airport operation to bolster the overall capacity of the TCIAA and acquire knowledge and resources that could then be applicable to the development of the entire airport network of the country. The new challenge that the operation of a current facility with a construction whose scope and magnitude has never been faced in the country requires a change in the operational model to ensure the highest standards in terms of safety and quality of service.
2. Identify the transaction objective, public value, benefits, and financial feasibility of the business model; i.e. Public Private Partnership (PPP) investment model; and
3. Acquire approval to proceed with a procurement exercise by which potential investors will be pre-screened for final tender eligibility and to proceed with the conduct of a final procurement leading to a preferred Partner.

The document provides a detailed assessment of the proposed project's strategic fit, economic case, commercial viability, financial affordability, management case, and risk assessment, following the indications of the Five Business Case Model and International Guidance Provided by the UK Government. The document aims to provide decision-makers with the information they need to make an informed decision about the viability and desirability of the proposed airport redevelopment project under the optimal commercial scenario that provides clear and beneficial economic and financial results. This includes a detailed analysis of the project's costs and benefits, as well as an assessment of its risks and opportunities. The document also outlines the proposed procurement process, including the expected timelines and key milestones.

This Intermediate Business case has been built based on the studies carried out by the Project Team and its advisors which are an integral part of this document and are included as Annexes. A Full Business Case (presenting terms upon which the

parties will wish to contract) and Project Delivery (monitoring and evaluation of the benefits) will follow the proposed procurement exercise.

Background

The Turks and Caicos Islands (TCI) is lauded as a premium/niche Caribbean tourist destination, with air traffic mainly composed of high-yield United States of America inbound tourists. The TCI also welcomes regularly scheduled flights from London (UK), Toronto (Canada) and the neighbouring Caribbean region. The TCI still has room to increase its touristic hotel offer density, whilst maintaining the high yield style, the main driver for air traffic development.

The planning and development of modern and resilient airports to facilitate international travel into and throughout the Turks and Caicos Islands is a priority of the Turks and Caicos Islands Government through the Turks and Caicos Islands Airports Authority ("TCIAA") and is a significant driver of economic development for the country.

In May 2022, upon the culmination of an open tender exercise, the Turks and Caicos Islands Airports Authority ("TCIAA") contracted ALG Transport & Infrastructure Advisors PLC ("ALG") as feasibility and transaction advisors for the Howard Hamilton International Airport Redevelopment Project (procured through the Providenciales International Airport Redevelopment Project, TCIG Tender Reference 21/43). The scope of the engagement was and remains to specifically assist the TCIAA in conducting technical, legal, environmental, and financial assessments of the Airport to:

a) define an appropriate scope, structure and risk allocation for the Public Private Partnership (PPP) or Public Finance Initiative (PFI) transaction through the required technical and legal studies to ensure maximum value for the use of public resources for the modernization and operation of the airport;

b) develop a comprehensive Invitation to Tender for the tendering process;

c) conduct a transparent tendering procedure to attract a private investor to finance, design, expand, operate and maintain the airport; and

d) lead in the implementation of the selected alternative.

The project for which ALG is engaged is divided into three (3) Phases:

a) Phase I: The conduct of technical studies, finance, legal due diligence, and the identification of a preliminary transaction structure. This phase required the consultant to further conduct a review of the Airport and produce a report with a specific focus on the economic feasibility, and provide a baseline for the TCIAA for a better assessment during the tendering process, and to ensure that informed decisions can be taken on the way forward with the project. It also required identification of the basics for the required tasks concerning due diligence and transaction structuring along with the required document drafting to ensure Value for Money (VfM) is achieved and to support any approvals required as per the TCI's Public Finance Management Ordinance (PFMO) and the Public Procurement Ordinance (PPO).

b) Phase II: The conduct of the tender, evaluation, and pre-award of the project. This phase, subject to approval to proceed with the procurement; will focus on the preparation of data and documents related to the tendering process for the assignment of the concession of the Airport including Project Information Memorandum, Invitation for Prequalification (IFP), Invitation to Tender (ITT), legal/tender evaluation criteria and Draft Contract.

c) Phase III: This phase will be oriented towards the achievement of commercial and financial closure with the Preferred Bidder and the final award of the contract. This phase will further be defined as per the guidance of the Consultant.

In the conduct of its function as transaction advisor, ALG is assisted by the Gide Loyrette Nouel (GIDE) a global law firm based in France with representation in the United Kingdom.

This Intermediate Business Case in based on the information and outcomes achieved by the delivery model of consultants' Phase I. This delivery model consisted of the following activities:

a. An initial site visit was conducted to assess needs and to determine whether there was an appetite for investment;

b. A follow-up site visit comprised of workshops and a stakeholder engagement was conducted to further identify the market needs, the feasibility of the development and the value for money (VfM) for an investment, and to determine the evaluation criteria and weightings for shortlisted models.

c. The elaboration of a Due Diligence Report addressing its findings and recommendations across the following areas:

- Market and Traffic;
- Indicative Development Plan and Investment Programme;
- Environmental & Social Assessment;
- Fees and Charges;
- Business Plan;
- Legal and Contractual Framework;
- Financial Model
- Cost Benefit Analysis and Value for Money Analysis; and
- Airport Redevelopment Options scenario analysis.

These reports when read alongside this document, collectively comprise the material required to be consistent with the United Kingdom's preference for infrastructure business cases developed on the so-called Five Case Model (5CM) methodology, using a framework of five dimensions: strategic, economic, commercial, financial, and management. The guidance provided by Infrastructure UK identifies four states of a project's business case development: i.e. Early Business Case; Intermediate Business Case (where there is a decision to proceed with procurement); Full Business Case (where there is a decision to contract); and Project Delivery (monitoring and evaluation of the benefits).

The Reports prepared by ALG as included with this document in Annexes 1, 2 and 3 substantively comprise those actions contained under the Economic, Commercial, Financial, and Management Case requirements of the Intermediate Business Case ("IBC"). Whereas the reports of ALG and GIDE are extensive in their presentation, much effort has been taken in this main document to avoid repetition of what has been set out and to shorten the length of this overall business case as considered appropriate.

As set out in the Due Diligence Report with sustainable development, the TCI could reach on a conservative analysis 1Million tourists annually by 2025, indicating a demand of 2.2 million passenger movements annually through the Howard International Airport. Thus, the TCI, therefore, requires a fine-tuned investment programme for the redevelopment of the Airport and ALG has advised an investment programme be defined on the results of its infrastructure analysis which dictates improved infrastructure needs for the airport's airfield, apron, passenger terminal building (PTB), and surface access.

A Business Plan which outlines a structure for regulated revenues, commercial revenues, and operational expenses for the Airport has been developed, considering a broad set of scenarios with a fully flexible tool that allows for quick scenario assessment and sensitivity analysis. The main alternatives studied in deeper detail include: (1) operation by TCIAA -status quo- and (2) the entrance of a private specialized airport operator. To this end, the private operator scenario is proposed as being most favourable to the redevelopment project as ALG projects EBITDA to grow at a CAGR of 2.2% between 2023 and 2053, reaching circa USD 50 million in the private scenario and circa USD 50 million in the status quo.

The economic analysis benefits cost ratio and risk assessment of the project is estimated through a value for money (VfM) assessment complemented by cost-benefit analysis (CBA) and indicates a higher net present value (NPV) of USD 239.3 Million under the PPP modality with a higher benefit-cost ratio (BCR) of 2.3 than that which would be achieved under the status quo.

It is the position of TCIG and TCIAA acting upon the advice of ALG that the preferred option for the redevelopment of the Airport is a PPP. A Value for-Money assessment was conducted by ALG and is included in the Transaction Structure Report of this business case. Upon completion of a preliminary feasibility study which involved site visits, stakeholder meetings, and a series of workshops with a designated Steering Committee.

Turks & Caicos – The Strategic Need

The Turks and Caicos Islands is a tropical archipelago of over 40 low-lying coral islands and cays surrounded by crystalline turquoise waters, in the Atlantic Ocean, situated just 575 miles (925 kilometres) southeast of Miami Florida, east of Cuba, and 75 miles (120 kilometres) north of the Dominican Republic.

Figure 1. Turks & Caicos Islands economic and air connectivity characterization

The Turks and Caicos Islands' economy is primarily based on luxury tourism and has an airport network that eases the connectivity between the main touristic areas. Once considered the world's best-kept secret, each island and cay in the archipelago is a destination on its own, welcoming visitors to pristine and inviting beaches, luxurious accomodations, world-class spas, delectable dining, water-based and eco-centric excursions, culture and local traditions.

As of today, the islands are renowned for their reputation as the ultimate luxury vacation spot, frequented by celebrities, creative, thrill seekers, families and those in need of a peaceful retreat alike.

Figure 2. Turks & Caicos Awards for the Tourism and Travel Sector

The primary vacation attraction to the islands is the country's exquisite marine environment and unparallel beaches. The TCI is acclaimed for its exceptional scuba diving and is home to one of the finest barrier reefs in the Atlantic Ocean. As a counterpart to luxury tourism, the real estate and investment markets in the TCI have significantly grown in recent years.

Like many tourism destinations, the TCI experiences predictable peaks and falls in visitor arrivals throughout the year. The winter in the northern hemisphere (high season) is the business time of the year. The rates and availability of local accommodations and activities are a reflect of the different seasons.

- 2018 Increase in air arrivals by 6% with a 13% increase in Air Load Factor
- 2019 Increase in air arrivals by 10%
- 2020 Decrease due to global COVID-19 Pandemic
- 1st Quarter performance in air arrivals for 2022 increased by 33%

The number of tourist arriving by air and overnighting in the TCI will be recovered (compared to 2019) in 2022, while cruise tourist number will be fully recovered in 2023.

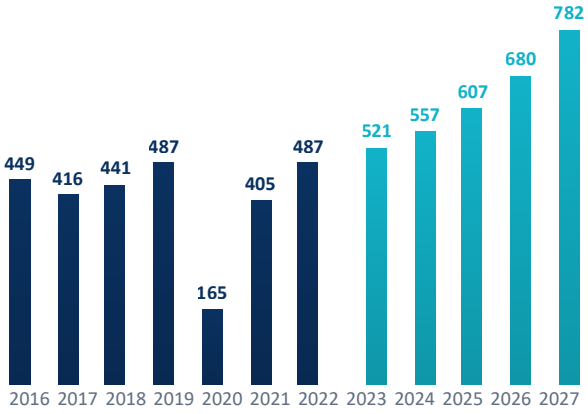


Figure 3. International Tourist Arrivals at PLS & '24-'27 projections ('000)

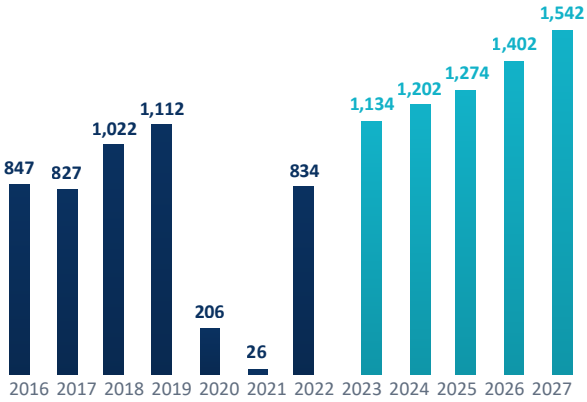


Figure 4. Cruise Port Visitors & '24-'27 projections ('000)

A New Destination Management Organisation is being created to replace the current Tourist Board and the impact of its activities is expected to be experienced in 2025 with a +12%/+15% overnight tourists compared to the previous years. During the period 2012-2019, the trend was +7.6% annual growth.

The airport – Motivation of the redevelopment project

The Howard Hamilton International Airport, Providenciales International Airport or PLS as per its IATA airport code, is the primary gateway to the Turks and Caicos Islands and at present is suffering from significant congestion issues due to exceeding its passenger terminal capacity almost daily during peak seasons. This not only damages the reputation and brand of the Turks and Caicos Islands but presents several health and safety concerns for the terminal's users and employees. In 2021 the airport handled just over 400,000 stay-over arrivals. This is a fast rebound from the Covid-19 pandemic. Notably, in 2019 the airport demanded 1.6 million passenger seats and this demand was reached during 2022.

Though compliant with ICAO Annex 14 standards, for the most part, an assessment of the current asset by the Consultant has revealed that apart from relevant congestion concerns and capacity limits (airfield and terminal), the Airport would not be compliant if its runway was classified as an instrumental runway, which may be necessary during the expansion of the airside as instruments would desirably be installed to identify the location of taxiing aircraft during low visibility operations.

Additionally, the Airport's current landside is non-compliant with Air Safety Services International (ASSI), the TCIAA's current UK Territories security regulator due to the current terminal design and space constraints for physical adjustments failure to meet the minimum 30 feet distance threshold between the terminal entrance where passengers are located and the public access road. This issue can best be addressed with the relocation and construction of a new terminal designed with security thresholds in mind.

To achieve the satisfaction of the identified infrastructure needs ALG has further identified and proposed an investment strategy defined under three categories of investment:

a. expansion CapEx;

b. compliance CapEX; and

c. maintenance CapEx.

The Expansion CapEx correlates to investment actions required to develop the airport's infrastructure and processing ability. This includes the addition of new infrastructure, equipment and/or systems not previously existing. The Compliance CapEx relates to the investment required to align the airport's infrastructure to the standard and recommended practices (SARPs) of the International Civil Aviation Organisation (ICAO), mainly regarding the safety and security of the operation. This investment is intended to adopt the form of capital investment actions or major maintenance actions and replacement actions needed within the first four years of the redevelopment project. The Maintenance CapEx relates to the investment required to "maintain the good and safe operating condition of the existing infrastructure". This concerns the lifecycle of the asset to be built under the first investment category as well as a minimum maintenance plan.

In addition to identifying three investment categories, it is proposed that redevelopment take place over two distinct construction phases intended to increase the airport's capacity as quickly as possible:

1) quick wins phase: to be completed over a 1 to 2-year period and includes the implementation of a new turn pad (airside); increasing the apron size by 282,000 sqft; and the expansion of the existing passenger terminal by 26,700 sqft to increase terminal capacity from 0.9Mpax to 1.1- 1.6Mpax.

2) Short/Mid Term developments: to be completed over a 3-4 year period and includes adding an airside taxiway for departures and a separate taxiway for arrivals (increasing airfield capacity from 14ATMs/h to 26-28 ATMs/h); increasing the apron by an additional 110,555 sqft; the construction of a new passenger terminal building of at least 270,000 sqft; and the expansion of the surface areas to include new car parking capacity and improved access.

It is concluded that the Howard Hamilton International Airport will require a total investment of circa USD 363 Million for the development period with expansion CapEx accounting for 82% of the total investment (USD 290 million). Of the expansion CapEx, the largest expenditure will be the construction of the new Passenger Terminal Building (PTB), with a value of circa USD 169.4 Million (i.e. about 60% of the total CapEx). The largest of the maintenance CapEx will be the repaving of the runway and taxiways with an estimated value of USD 31.3 million. These figures are derived upon noting that construction cost in the TCI is generally 50% higher than costs throughout the region.

If the recommendation is not undertaken, the current state of the terminal will either be left as is or the TCIAA will bear the burden of the congestion. The passengers' experience will degrade their travel, negatively impacting TCI's tourism product and, ultimately the country's revenue-generating ability. Unwittingly, TCIAA must consider not accepting additional passengers or airlines, against the evident market demands, to the TCI with the current conditions of the PLS Terminal. There are also health and safety concerns with the current terminal which risk regulatory intervention and can risk a halt of operations if not immediately addressed, mitigated, and subsequently removed. The alternative to the proposed programme is the status quo approach whereby the TCIAA and TCIG self-fund the redevelopment. Whilst the TCIAA believes the TCIAA and TCIG are capable of self-financing or have access to financing which may allow for self-development, it is suggested here that there are greater merits to be found in a PPP approach, primarily in the cost of opportunity for funding projects that but also in the transfer of risks and debt to the private sector, the expediency of the delivery of a quality assured construction project, and in the introduction of improved quality operations achieved through an experienced international operator.

Inaction Consequences

The TCIAA has a developed a strategy for the future development and management of all of its airports which is built around TCIG's vision for the development of resilient infrastructure, innovation, and industry as a critical tool for poverty alleviation and nation building. To this end, the TCIAA has embarked on and will continue to review its major airports to ensure adequacy for domestic and international travel as well as to meet the demands of TCI's vital tourism industry. During the 2022-2023 and 2023-2034 fiscal years, the TCIAA will be engaged in the development of a Strategic Master Plan focused on providing a 20 to 30 years strategic outlook for the development of and investment into all of its airports as a single and reliable network providing quality air transportation services throughout the TCI.

In this regard, the contribution from international best practices in airport operations would allow for the achievement of the desired long-term objectives, whilst providing optimal and enhanced level of service to the current and future demand for air travel to the islands.

1. Strategic Case

1.1. Introduction

Air transportation throughout the Turks and Caicos Islands (TCI) is currently facilitated by six (6) airports all of which are nestled amongst complex, fragile, and protected ecosystems throughout the Turks and Caicos Islands. Only one of these airports, the Howard Hamilton International Airport ("the Airport"), currently operates as a commercial port-of-entry into the country, thus making it the primary gateway into the TCI and the principal driver for economic development. The programme outlined herein concerns the procurement of a redevelopment of the Howard International Airport into a modern and resilient airport to facilitate rapidly growing international travel into and throughout the Turks and Caicos Islands is a priority of the Turks and Caicos Islands Government through the Turks and Caicos Islands Airports Authority ("TCIAA").

The programme as discussed herein is at the end of its Phase I process whereby expert consultants directed the conduct of technical studies, finance, environmental and legal due diligence, and the identification of a preliminary transaction structure. This phase required the consultant to further conduct a review of the Airport and produce a report with a specific focus on the economic feasibility and provide a baseline for the TCIAA for a better assessment during the tendering process, and to ensure that informed decisions can be taken on the way forward with the project. It also required identification of the basics for the required tasks concerning due diligence and transaction structuring along with the required document drafting to ensure Value for Money (VfM) is achieved and to support any approvals required as per the TCI's Public Finance Management Ordinance (PFMO) and the Public Procurement Ordinance (PPO).

1.2. Project Rationale and Strategic Context

1.2.1. Project Rationale

The airport redevelopment project is being proposed due to several reasons including capacity constraints, regulatory compliance, capacity building, and transfer of expert airport operation knowledge.

Firstly, the existing airport is facing relevant capacity constraints, which can limit its ability to handle a growing number of passengers and flights. This can result in longer waiting times, delays, and overcrowding, which can negatively impact the passenger experience and safety.

Secondly, regulatory compliance is another key factor driving the need for the project. Airports are subject to a wide range of national and international regulations and standards, including safety, security, and environmental regulations. Failure to comply with these regulations can result in safety issues and reputational damage for a top tier touristic destination.

Thirdly, the airport development project may also be driven by the need for capacity building and induced benefits on the national airport network. This can involve the training and development of staff to improve their skills and knowledge, as well as the acquisition of new equipment and technology to improve airport operations.

Finally, the transfer of expert airport operation knowledge is also a key factor driving the need for the airport redevelopment project. This can involve the collaboration with international players to bring in new designs, ideas, concepts and best practices in airport management and operation that can boost the financial performance of the infrastructure.

1.2.2. Strategic Context

The Howard Hamilton International Airport, formerly the Providenciales International Airport has proven to be inadequate in spacing with no scope for increased demands, particularly with the increase in international flights to the Turks and Caicos Islands as of November 2021.

In 2020-2021, enforced COVID-19 protocols created further spacing limitations to an already small arrivals hall, resulting in the Turks and Caicos Islands Government (TCIG) having to look at new and innovative ways to expedite passenger processing through the arrival terminal (both Immigration and Customs), without compromising its Health and Safety and National Security obligations. The TCIG has identified the development of the Airport as a significant priority area during its current term. Cabinet, as a preliminary, received and attended various unsolicited presentations for the redevelopment of

the airport which were all varied in scope and proposal, making it abundantly clear that a consultancy is required to present the best options for the life of the redevelopment based on TCIG's goals, preferred funding and managing mechanism. The TCIG intends to redevelop the Howard Hamilton International Airport, which will give it a life cycle of at least forty years. This entails the construction of a new terminal building, a parallel runway or taxiway, and auxiliary facilities, to improve the quality of the Airport's services.

After conducting a feasibility exercise to determine market needs and the required investment to meet market demand, TCIG and TCIAA have determined that the Howard Hamilton International Airport will require a total investment of circa USD 363 Million for a development period of 30 years (common horizon for airport development initiatives due to the asset life cycles), with expansion CapEx accounting for 82% of the total investment (up to USD 290Million). It has further been determined that the commercial structure of the redevelopment project would require either from Public or Private financing and, therefore, a PPP modality is the ex-ante preferred option for funding the redevelopment project.

Traffic forecasts supporting this investment project above 2 million passengers per year on the 30-year time horizon, as a result of the increase of touristic attractiveness of the islands. This forecast is based on detailed assessment of route and airline development strategy, the service and densification (increase in number of frequencies per week) of existing destinations and a detailed macro-economic assessment on the long-term expected evolution of air traffic demand for the islands.

These estimations have been validated with the existing touristic development plans and strategies for the island, in order to ensure that no hotel capacity constraints are faced and also to confirm that the estimated air traffic forecasts are in line with the tourism objectives of the country and the modal access foreseen.

Even though there are alternative modes of access for tourists to the islands (mainly cruises), air transport has played a complementary and strategic role in the development of international tourism mainly to the U.S.A. and is expected to play a vital role in the long-term.

Whilst cruise tourists arrive in larger volumes, their stay and spending rates are significantly lower to those arriving by plane. This is the reason why the promotion of long.-range, long-stay, high-yield touristic profile is the segment to be target and for which an international top-class airport infrastructure is need.

TCIG, before formally embarking upon this programme received several unsolicited bid presentations for the redevelopment of the Airport, all of which proposed an investment volume and concession period similar in scope to what it recommended by the consultants and envisioned for the programme. It is assumed by this project that there exists a private sector partner best placed to assume the risks to be transferred and that this partner can be identified through the bidding portion of TCI's procurement process.

Two development lines have been identified, which would run parallel to each other:

1. The first line is classified as "quick wins" which is planned to be completed over a 1 to 2-year period and includes the implementation of a new turn pad (airside); increasing the apron size by 282,000 sqft, and the expansion of the existing passenger terminal by 26,700 sqft to increase terminal capacity from 0.9Mpax to 1.1- 1.6Mpax.
2. The second and more substantive category is the "Short/Mid Term developments" planned to be completed over a 3-4 year period and includes adding an airside taxiway for departures and a separate taxiway for arrivals (increasing airfield capacity from 14ATMs/h to 26-28 ATMs/h); increasing the apron by an additional 110,555 sqft; the construction of a new passenger terminal building of at least 270,000 sqft; and the expansion of the surface areas to include new car parking capacity and improved access.

Under the proposed programme, some key considerations should be based such as the fact that TCIAA (a statutory body responsible for the control and management of TCIG's public airports) must retain ownership of the Airport ("Asset") with there being a maximum 30-year period for the funding/payback arrangement. It is envisioned that through a meticulously designed and executed procurement exercise involving a pre-qualification stage, a renowned international airport operator could be engaged for the operation and maintenance of the asset while the construction of the asset will be via a local investor or a consortium thereof, who would in the process of preparing themselves for construction of the project

contract the requisite skills and project experts experienced in the construction of airports within the similar scope contemplated. One of the key principles of the redevelopment project is that there will be no impact on TCIG's debt status. TCIG's remuneration would be the result of a structured revenue share scheme or dividend repayment policy depending on whether the project is structured as a PPP or developed with Public funding/financing.

Sections 34 of the Public Procurement Ordinance ("PPO") and 22 of the Public Finance Management Ordinance ("PFMO") - both TCI legislation - require that where a project contemplates a PPP or a PFI or any other form of alternative financing, it should not be considered unless written approval of a Secretary of State has been obtained. It is for this reason at the culmination of Phase I and with an analysis of the investment/procurement modality options already contemplated, this Intermediate Business Case is submitted to obtain such approval to proceed with Phase II of the redevelopment programme.

Should the selected alternative be a PPP model, this Phase II will focus on the preparation of data and documents related to the tendering process for the assignment of the concession of the Airport including Project Information Memorandum, Invitation for Prequalification (IFP), Invitation to Tender (ITT), legal/tender evaluation criteria and Draft PPP Contract.

1.2.3. Government Involvement

The Turks & Caicos Islands Airports Authority ("TCIAA") was set up by the Government of the Turks and Caicos Islands ("TCIG") in 2006 to control and manage all public airports within the Islands. This includes providing and maintaining runways, taxiways, and technical buildings for aircraft and passenger facilitation.

The TCIAA's Head Office is located at the Wolter E. Cox Administration building at the Howard Hamilton International Airport, Providenciales, and currently employs nearly 400 staff.

The TCIAA currently controls and manages six public airports (4 of which are international airports) across the TCI, namely:

1. **Howard Hamilton International Airport – Providenciales**
2. Jags McCartney International Airport – Grand Turk
3. Norman B. Sanders International Airport – South Caicos
4. Clifford Gardiner International Airport – North Caicos
5. Leon Wilson Airport – Salt Cay
6. Eric Arthur Airport – Middle Caicos

As part of **our mission**, the TCIAA aims to provide world-class airport operations through high safety standards, security, quality, efficiencies, and customer service recognizing its importance to the overall economic development and strategy growth of the Turks and Caicos Islands. Pursuing the completion of its mission, the TCIAA find the strategic need to develop a best-in class airport infrastructure facility at Howard Hamilton International Airport capable of facilitating the reception of the most attractive touristic flows align with the long-term strategic vision for touristic development in the country.

From 2020 to 2021 TCIG received via Cabinet several unsolicited bid presentations from private investors for the redevelopment of the Airport. Notably, the redevelopment of the Airport was and remains a high-priority project on TCIG's Agenda. Between October 2021 and December 2021, TCIG met with the management of TCIAA who likewise at the time recognized the need for the redevelopment of the Airport and together agreed to (1) the establishment of a programme Steering/Advisory Committee for which the Premier of the Turks and Caicos Islands serves as the Head, and (2) the TCIAA procuring for the project expert feasibility and transaction consultants to assist the TCIAA in conducting technical, legal, environmental, and financial assessments of the Airport to:

a. define an appropriate scope, structure and risk allocation for the Public Private Partnership (PPP) or Public Finance Initiative (PFI) transaction through the required technical and legal studies to ensure maximum value for the use of public resources for the modernization and operation of the airport;

b. develop a comprehensive Invitation to Tender for the tendering process;

c. conduct a transparent tendering procedure to attract a private investor to finance, design, expand, operate and maintain the airport; and

d. lead in the implementation of the PPP.

ALG Transportation and Infrastructure Advisors PLC were ultimately contracted as consultants.

In addition to this, the Attorney General's Chambers simultaneously on behalf of TCIG embarked upon a review of TCI's procurement legislation and procured the assistance of the reputable UK Law Firm, Ashurst to assist with the comprehensive review and the making of recommendations where necessary to secure a modern, enabling, and yet strongly good governance assured and value for money centred legal framework for the project. To this end, Chambers acting upon the advice of Ashurst and in consultation with GIDE (attorneys engaged with ALG in the consultancy) has concluded there is a need for various legislative amendments to TCI's procurement laws and more specifically to regulations which apply to high-volume projects contemplated to be funded via the PPP modality, which is currently being drafted for Cabinet and ultimately the Legislative Council's approval, after routine consultation. An outline of the works being carried out to improve TCI's legal framework for a sound facilitation of the project is provided in Annex 6.

Along the different stages of the process, the different Government bodies (Cabinet, Ministries, etc.) have taken an active and proactive role in the provision of requested information, participation in validation meetings and workshops, provided feedback and validated the final outcomes of the studies (market analysis, business plan, investment plan, environmental and legal due diligence, financial results, and alternatives for transaction structuring).

1.2.4. Program Governance

The programme is principally governed by TCI Procurement Laws as set out in TCI's Public Procurement Ordinance ("PPO"), Public Finance Management Ordinance ("PFMO"), alongside the Turks and Caicos Islands Airports Authority Ordinance ("AAO") and their corresponding regulations.

The PPO and PFMO provide for general good governance principles in PPP procurements, with the PPO requiring that the procurement be conducted in a manner that ensures competition which is appropriate, fair, transparent, and ethical, and ensures that the highest standards of probity are observed by officers involved in the procurement. Principally, Sections 34 of the PPO and 22 of the PFMO, in addition to requiring approval from a Secretary of State, require that a project where PPP, PFI, or any other alternative method of funding is contemplated to have:

a. a sound appraisal underpinning the proposed project before the financing means has been determined.

b. a financial appraisal demonstrating improved value for money against a conventionally financed alternative.

c. a long-term affordability case assessed and agreed upon by the appropriate technical experts retained by the government (which in this case has been executed through the TCIAA's contracting of ALG as consultants); and

d. an independent opinion from a qualified accountant of good standing on the correct accounting treatment in the government's accounts.

A regulatory and legal framework due diligence report prepared by GIDE is provided in the consolidated Due Diligence Report at Annex 1.6 and outlines the relevant authorities, key bodies, processes, challenges, and recommendations.

The legal framework and due diligence report outline a governance structure for the project. The key bodies identified for the good governance of the project include (1) the Governor, (2) the Premier and Cabinet, (3) The Ministry responsible for the TCIAA which at present is the Ministry of Immigration and Border Services, (4) the Ministry of Finance, Trade and Investments, (5) the Attorney General's Chambers, (6) the Turks and Caicos Islands Airports Authority; (7) the Turks and Caicos Islands Civil Aviation Authority; and (8) the Procurement Board.

The programme envisions the use of a prequalification procurement procedure (one of three procurement procedures allowed under the PPO, section 3) which will involve the publication of an invitation for submissions from potential contractors on a list of all potential contractors that have been granted a specific license or comply with a legal requirement, where the license of compliance with any legal requirement essential to the conduct of the procurement (TBD). The evaluation criteria for the prequalification exercise are set out in paragraph 7.2.5 of the legal due diligence report and rules about the invitation to tender are comprehensively detailed in paragraph 7.2.6 of the same.

In particular, and based on the ex-ante preferred delivery model alternative, conclusions on the TCI PPP Framework are provided in paragraph 7.3 of the legal due diligence report. As stated, there is currently ongoing work to address concerns as to the inadequacy of TCI's procurement laws to facilitate the programme contemplated. This interim work entails amendments to specific provisions of the law to allow the project to derogate from the PPO and PFMO without contravening those principles of good governance contained therein and as considered appropriate in international law. Annex 6 of this document is a brief prepared by Ashurst, Legal Advisors to TCIG outlining the Works completed and contemplated concerning the legal framework.

1.3. Objectives and Existing Arrangements

1.3.1. Project Objectives

Project objectives have been structured in three different time horizons:

1. Short-term objectives:
    a. Solve current capacity constraints with temporary infrastructure re-arrangements to meet with level of service, safety, and quality standards.
    b. Consolidate passenger recovery and increase after COVID.
    c. Slightly increase the airport's capacity to handle more passengers and flights in the interim period until the commissioning of a new terminal facility adjusted to the long-term expected demand is finalized.
    d. Enhance the passenger experience through improved services and amenities.
2. Mid-term objectives:
    a. Attract new airlines and routes to the airport to further develop existing connectivity to the islands.
    b. Develop new business opportunities within the airport, such as retail and dining options, leveraging the new terminal facilities and the implementation of international best practices.
    c. Create a coordinated strategy for promotion of the islands as a destination for tourism and investment in new markets currently unattended.
    d. Foster the interaction and network with regional airports and airlines to increase connectivity.
3. Long-term objectives:
    a. Pursue environmentally friendly airport operation, reducing environmental impact on a stressed environment, reducing carbon emissions and waste, preserving air and water quality.
    b. Develop infrastructure to support the growth of the island's economy, such as new hotels, conference centers, and industrial parks.
    c. Create a coordinated long-term sustainability plan for the airport and the island's economy in coordination with the responsible entities for Tourism and Industrial development.
    d. Foster innovation, knowledge and technology transfer in the aviation industry to support long-term growth and development of the national airports' network.

1.3.2. Existing Arrangements

The airport redevelopment project is supported by a set of specific arrangements that cover the existing needs in multiple dimensions:

1. Infrastructure and operations: the airport infrastructure is operational and in sound condition to serve current demand. It also serves as basis for the implementation of the expected improvements and provides the airport operator with sufficient technical options to ensure business continuity. In addition, operational knowledge of the member of the TCIAA and the airport management ensure the provision of airport services in line with the existing standards and towards the desired quality and level of service.
2. Technical/Transaction Advisor: a technical and transaction advisor has been appointed (ALG, supported by GIDE on the legal scope) and is working on a continuous manner with the TCIAA along the different stages of the project. Their engagement will continue with the upcoming phases of the redevelopment project, providing support for the elaboration of the pre-qualification documents, evaluation criteria and drafting of the final contract for the project.
3. Legislative framework: the existing legislative framework is considered valid for the purpose of the redevelopment project with minor adjustments as identified in the detailed Legal Due Diligence that has been already carried out by GIDE.
4. Independent appraisal: an independent appraisal has been carried out on the Financial Model created by ALG for the purpose of the redevelopment project including its structure, assumptions, and outcomes, with specific focus on the Value for Money exercise and its conclusions with respect to the preferred delivery model.

5. PMO Expert for Project Delivery and Contract Management stages: Expert Project Manager for leading, developing, monitoring and advising the Project Team has been hired on the basis of the Terms of Reference (ToR) developed and published and their detailed scope, responsibilities and requirements detailed on Annex 10.

1.4. Potential Scope - Demand Situation, Investment Need, and Integration Strategy

Research conducted in a Phase I feasibility and transaction structuring consultancy conducted by ALG Global projected that the airport will reach 2.2M passengers by 2053. Thus, there is an immediate need and opportunity to modernise and expand both passenger and aircraft capacity at the Airport as per TCIG's mandate for doing so as it continues to ensure the development of resilient infrastructure across the TCI.

With there being an established case for investor appetite for the redevelopment and public consensus on the urgent need for redevelopment, it is proposed there be a procurement of a modern and expanded new world-class passenger terminal for the Providenciales International Airport. The project is structured around four phases.

Phase 0 – Feasibility and Transaction Structuring

This is the current status.

Phase I – Handover to the concessionaire

This is considered the transition period to ensure a smooth transition from TCIAA to the new private operator minimizing the impact on airport operations. This phase is key for the success of the project.

Phase II – Construction

This phase is intended to last until the commissioning of the new terminal building. The phase covers both design and construction. It should be noted that this phase includes also all expansion works including the airfield (including apron), terminal, and other associated support facilities development works as well as interim developments such as the existing terminal quick wins.

The construction works to be implemented during this phase will ensure that the airport has enough capacity to accommodate the expected demand while ensuring an adequate level of service. Quick wins, including renovation, work to the existing terminal to support the rapid increase in annual passenger movement through the terminal as an immediate and interim solution. The sum of US$6,000,000.00 projected as expenditure for year 1, will not form part of the procurement process. Works covered by this sum will be taken on by the TCIAA as ancillary to the project, for which a separate business case and cabinet paper have already been submitted (i.e. TCIAA Congestion Alleviation Plan).

The long-term solution is a parallel redevelopment of the Airport by constructing a new terminal to be completed within 30-33 months. It is estimated that the new terminal should not be less than 267,000 sq. ft. with the capacity to accommodate 1.0 – 1.6 million passengers.

Phase III – Operation and maintenance

This phase consists of the operation and maintenance of both existing facilities and newly developed facilities ensuring compliance with any procurement or concession agreement.

Phase IV – Hand-back to TCIAA

Similar to Phase I, the objective of this phase is to ensure a smooth transition from the private operator back to TCIAA.

1.5. Project Benefits, Risks, Constraints, and dependencies

1.5.1. Benefits

The project provides a set of benefits at country level which can be summarized under the following categories:

- GDP contribution: According to the World Travel and Tourism Council (WTTC), in 2019, tourism directly contributed 46.3% of the country's GDP and the total contribution of tourism (including indirect and induced contributions) was estimated at 88.4% of the GDP. The catalytic effect of an airport infrastructure, which will be

the gateway to the country for additional tourist, would allow for an increase in volume of activity and indirect/ induced effects.

- Tourism: The tourism industry in the Turks and Caicos Islands provides employment to a significant portion of the country's population. In 2019, the tourism industry supported 23,000 jobs, which is equivalent to 91.6% of the country's total employment (based on World Travel and Tourism Council (WTTC) report titled "Turks and Caicos Islands: Travel and Tourism Economic Impact 2019").

- Spending Rate: Air travellers are characterized by higher spending rates and longer stays (accommodation in luxury resorts/villas and looking for dining experiences, sea excursions and active tourism). They also show more steady patterns, avoiding the recurrent daily cycles resulting from the cruise activity, tensioning the services on the islands and putting on extreme peaks of the demand followed by spare island capacity until the next cruise arrival.

- Employment: the provision of high quality, air transport connection between the islands, but also with foreign countries would allow the local and regional population to access a broader range of employment opportunities throughout the region, with the opportunities for advancement into more skilled professions that exist now. Small and medium sized enterprises ("SMEs"), would also receive from more advanced requests, additional volumes of opportunities and access to international know-how.

- Real Estate Investment: long-stay tourism allows for the development of additional sectors, in particular, the exclusive Real Estate development of luxury villas and compounds, for longer stays, generates additional contributions and benefits for the country.

- Health and safety improvement: the operation on a new passenger building, would allow for the overall improvement of working conditions for all airport employees, with enhanced facilities, removal of potentially hazardous materials (asbestos) and in compliance with the latest requirements in terms of health and safety.

- Water Quality: the new airport would also contribute to the enhancement of overall water quality, since a new water treatment plan is part of the investment programme for the potable and disposable water generated by the airport activities.

- Efficient Terminal Building and Sustainable Airport Operation: the commissioning of the new terminal building would allow for the implementation of the latest advances in energy efficiency, potential for sustainable energy generation, and the potential for the new operator to comply and apply for the latest environmental certifications (LEED, ACA Carbon Accreditation, etc.).

The proposed redevelopment programme also maximises the opportunity to achieve the best economic and social returns for the redevelopment of the Airport [see **Section 2.3 "Cost-Benefit Analysis Results"**]. The CBA identifies the proposed redevelopment project as a "project of improvement and investment" for the TCI. This is premised on the conclusion that:

a. The type of project is an income-generating project operating under private logic and is promoted by public institutions to provide economic benefits (or even social merits) and generates income for its self-sustainability.

b. The type of project generates qualitative benefits since the effects it will have will produce an unquestionable benefit, but of difficult valuation.

c. The purpose of the project is a "real investment" since it is focused on physical construction works, purchase of equipment, expansions, modernisation, and improvement of facilities.

d. The project is classified as an "improvement project" as it carries out construction works aimed at improving all aspects of the quality of service at the airport ensuring at the same time compliance with ICAO standards as well as improvement to operational safety.

The option of delivery the proposed project under a PPP model is a radical but effective approach to procuring infrastructure services. As a partnership between the public and private sectors, the solution of constructing a world-class

international air passenger terminal in Providenciales becomes a more realizable and sustainable development pursuit. It benefits from t the strength of the public sector as the driver to deliver services and regulator and coordination of public functions coupled with the private sector's strength in focusing on profitability and commercial efficiency creates the ideal scenario for the programme's delivery. PPP projects are underpinned by the need to transfer risks from the public sector to the private party managing the project and, in this project, the TCIAA and TCIG can procure a new world-class international air transportation passenger terminal capable of meeting the growing demands of the TCI over 30-40 years, while at the same time, significantly reducing the overall risk associated with the build, finance, and operation of the asset during that term.

1.5.2. Risks and constraints

Constraints are defined as the external conditions within which the project must be delivered, and over which the project has little or no control. A limited number of potential constraints to the redevelopment project for the airport have been identified:

- Geographical/Geological environment: preliminary referential designs have been developed as a reference for any potential entity in charge of the design and construction of the project, however, the characteristics of the terrain within the airport domains may pose certain conditioning factors for the selection of materials, designs or final locations for the terminal building. These are risks transferred to the entity responsible for the final execution of the construction works, regardless of the delivery model selected.
- Time limits: delivery of the project is now more critical than ever since air traffic has already recovered pre-COVID levels and tourism forecasts are even more optimistic due to the improved value proposition generated during these years of recovery. Therefore, capacity constraints should be quickly tackled and solved and the construction of the new terminal building should be tightly bound to the traffic triggers that have been established.
- Technical Considerations: a project of this complexity will undoubtedly face a number of technical difficulties, particularly engineering issues and design changes. Early consideration of design options, topographic and geological studies, etc. should be carried out by expert companies whose technical acumen can be proven with previous experience in works with significant scope and specifications. This aspect will be covered along the bidding process. Other unpredictable events may appear during the execution of the project such as the possibility of finding archaeological remains during construction (which may cause delays to planned operating dates) and will have to be dealt with as and when they occur. However, a clear risk allocation would allow for the proper allocation of roles and responsibilities with respect to the resolution of these events.

A detailed risk matrix has been developed as part of the Value for Money exercise and a preliminary risk allocation, to be refined during the Contract negotiation has been performed. These risks, altogether with their allocation and potential impacts have been gathered on the Risk Analysis and can be found as well on the Financial Model, in Annexes 3 and 5, as part of this Intermediate Business Case.

1.5.3. Dependencies

A list of the main dependencies active now has been carried out to showcase the key lines of work until the finalization of the procurement process and the presentation of the Final Business Case:

1. Adjustments on the PPO and the PFMO to allow for the specific considerations of the airport redevelopment project which are currently underway and ready to be finalized upon approval of the current business case.
2. Land availability: all the project development will be carried out in lots which are currently property of the TCIAA, thus determining a fixed concession perimeter, not accepting any redevelopment project which would fall under land plots outside TCIAA's ownership. Any potential consideration towards this type of development would be subject to the appropriate land acquisition/reclamation process before approval of such an alternative.

3. Financing/Business Levy: given the potential size of the scheme, its importance for the national economy and the fact that the project would not be subject to any fiscal relief, the project will only be feasible if a combination of Public sponsorship with Private Funding is achieved.

4. Government tourism strategy: any plans developed for the promotion/enhancement of the touristic sector should be coordinated with the airport development strategy, acting in a coordinated manner to consolidate individual objectives under a common strategic framework to maximize synergies and avoid conflicts.

2. Economic Case

A wide range of options have been considered and a rigorous cost benefit ("CBA") analysis have been conducted to determine the preferred option for redeveloping the Howard Hamilton International Airport. This economic case aims to do the following:

a. Provide an economic analysis for the options identified.

b. Provide a qualitative benefits and risk analysis.

c. Identify the preferred option and to provide a sensitivity analysis.

d. Provide a review of the environmental, climate/carbon and social impact assessment, and to provide any other technical studies, including studies related to carbon emissions and climate mitigation, adaptation, and resilience.

The economic case is substantively set out in three reports prepared by ALG Global following a detailed workshop held with the project Steering/Advisory Committee. These reports illustrate that private funding will provide a strategic fit and will offer greater potential for realizing value for money, and further support a PPP as a preferred option for the redevelopment of the Howard Hamilton International Airport. Detailed contents of the Technical, Financial, Environmental and Legal reports are provided (see Annex 1) supporting the results and conclusions of the Economic Case.

This Economic Case demonstrates that a wide range of options has been considered and that a rigorous cost benefit analysis ("CBA") has been conducted on the short list to determine the option that offers best value for money.

The next section of this case deals with quantitative appraisal, explaining at a high level how the costs and benefits were estimated and monetised – from this comes the Benefit- Cost Ratio ("BCR"). The short-listed options are then subjected to qualitative evaluation (primarily a qualitative analysis of the social and environmental impacts), to reach a preferred option. The final section deals with Value for Money ("VfM") in relation to the use of private finance through PPP ("Public-Private Partnership").

At Intermediate Business Case stage, the focus is on:

1. revisiting the wide range of options;
2. economic appraisal of the short list;
3. qualitative benefit and risk appraisal;
4. sensitivity and distributional analysis; and
5. identifying the preferred option which offers best value for money.

2.1. Shortlist and Selection of the preferred option

2.1.1. Project Scope

The scope of the redevelopment project is clearly defined by the investment needs associated to the expected demand, regulatory compliance (ICAO and local regulations), and international best practices (IATA) regarding level and quality of service.

For that reason, there are only two conceptual alternatives for the scope of the project:

1. **Do-minimum or No Project:** since the "do-nothing" scenario would result on a limited traffic growth due to the current capacity constrained of the infrastructure at 1.3-1.5 million passengers, thus limiting the touristic development of the country, but also would generate regulatory compliance issues, the scope of the "do-minimum" includes only airfield works associated to regulatory compliance, on-going or planned projects to be executed by the TCIAA and maintenance works based on asset lifecycle and renovation plans.
2. **Redevelopment Project execution:** comprehensive redevelopment of the airport as a whole, in order to meet with the regulatory requirements and solve pre-identified non-compliances, serve current demand with adequate level of service solving existing capacity issues, meet expected demand in the long term through a scalable and trigger-based development plan and carry out the required maintenance according to the lifecycle of the assets and its current condition.
    a. **Compliance Works:** To align the airport's infrastructure to the standard and recommended practices (SARPs) of ICAO mainly regarding the safety and security of the operation. This type of investment will adopt the form of capital investment actions or major maintenance and replacement actions.
    b. Expansion Works: Investment actions required in order to develop the airport's infrastructure and its processing capacity, and in general, the addition of new infrastructure, equipment or systems not previously existing. Based on demand evolution (triggers based on peak hour passengers, stands and total traffic volumes). Mandatory investments linked to demand triggers and to solve pre-identified capacity issues existing at the airport.
    c. Maintenance Works: Also referred to as "Maintenance and Replacement Investments" required to maintain the good and safe operating condition of existing infrastructure. Major maintenance actions may also be required to ensure regulatory compliance (e.g. major rehabilitation of a runway, taxiway or apron pavement to ensure the safe operation of aircraft).

In conclusion, as regards scope, **the "Redevelopment Project Execution" option was taken forward as the preferred option** and the "Do-minimum" was taken forward for purposes of comparison and CBA analysis only (in accordance with guidance) but considered not to be satisfactory for the completion of the strategic objectives of the Project and the Country.

2.1.2. Service Solution

For the achievement of the strategic objectives, alternative service solutions have been addressed, including its potential advantages and disadvantages:

1. **Development of Boat/Cruise Services:** the attraction and processing of international tourists forecasted for the country could be handled via cruise ports or boat services. However, there are two aspects to take into consideration:

    a. Estimated demand has been developed for air transport passengers, and tourism forecasts have been used as sanity check and validation of the resulting outcomes, to ensure that the proportionality of air passengers remains aligned with the expected tourist and visitor arrivals for the country

    b. Conceptually, cruise passengers are considered of "lower value" for the strategic interests of the country, since they remain for less time in the country and generate smaller impact on the national economy (less nights, lower expenditure per day and concentrated profile saturating available city infrastructure with limited impact on other locations of the country.

2. **Development of the secondary airports:** developing secondary airports to increase the number of entry points to the country could be an alternative to incentivize and boost the Origin & Destination traffic to the country. However, the adequacy and expansion of these facilities to the status and condition that PLS currently provides, would be translated into higher investment costs and added complexity.

3. **Do-Minimum Alternative:** executing the minimum interventions to ensure regulatory compliance and quick-wins would help in reducing the investment risks associated to the redevelopment project. However, this would not meet long-term vision and expected demand, generating the need for additional development projects in the short term.

4. **Airfield Development Alternative:** carrying out airfield expansion works would help in boosting capacity at the airport to absorb additional flights. However, this solution, even though compliant with regulation and airfield capacity needs, would not provide required Level of Service and Quality in line with international standards, resulting on detrimental passenger experience and potential reputational damage to the high-yield luxury concept promoted by the Country.

5. **Comprehensive Redevelopment Project Execution:** the holistic approach towards the redevelopment of the airport provides solutions to all the strategic objectives and long-term vision for the country. Demand and investment risks should be pondered but transferring those to the Private Partner would minimize Public Sector exposure whilst granting the so needed capacity and regulatory compliance investments.

Concluding, initial discussions led to **the Comprehensive Redevelopment Project Execution being the preferred service solution to take forward**. The alternatives seemed unable to meet national, regional, or local objectives (strategic fit) as effectively as the Comprehensive Redevelopment Project Execution either under self-financing or PPP scheme to be addressed under the Value for Money exercise.

2.1.3. Regulation Compliance, Airfield Capacity and Quality of Service

Given the "Redevelopment Project Execution" option is selected as the preferred option, the demand forecast for the Redevelopment of the Howard Hamilton International Airport is expected to reach 2,168 PHPs, 26 ATMs/h and 21 Stands by 2055.

	2022	2025	2030	2035	2040	2045	2050	2055
Annual traffic (Mpax & '000 ATMs)	1.16	1.40	1.74	1.85	1.93	2.00	2.08	2.16
	31.7	36.9	46.3	49.8	51.5	52.5	53.4	54.2
Peak hour ATMs	19	21	23	24	25	25	25	26
Stands (Code C+B)	15	17	20	21	21	21	21	21
Peak hour passengers (PHP)	1,837	1,919	2,032	2,068	2,094	2,117	2,142	2,168

Regulation Compliance

Aviation is an internationally regulated activity and, for that reason, an initial assessment based on ICAO's Annex 14 shows that PLS is compliant with ICAO standards. However, non-compliances would arise if the runway was classified as instrumental. In case the runway was declared instrumental, the Code C stands in front of the terminal would not comply with the transitional surface, which is a typical issue in other airports of the region.

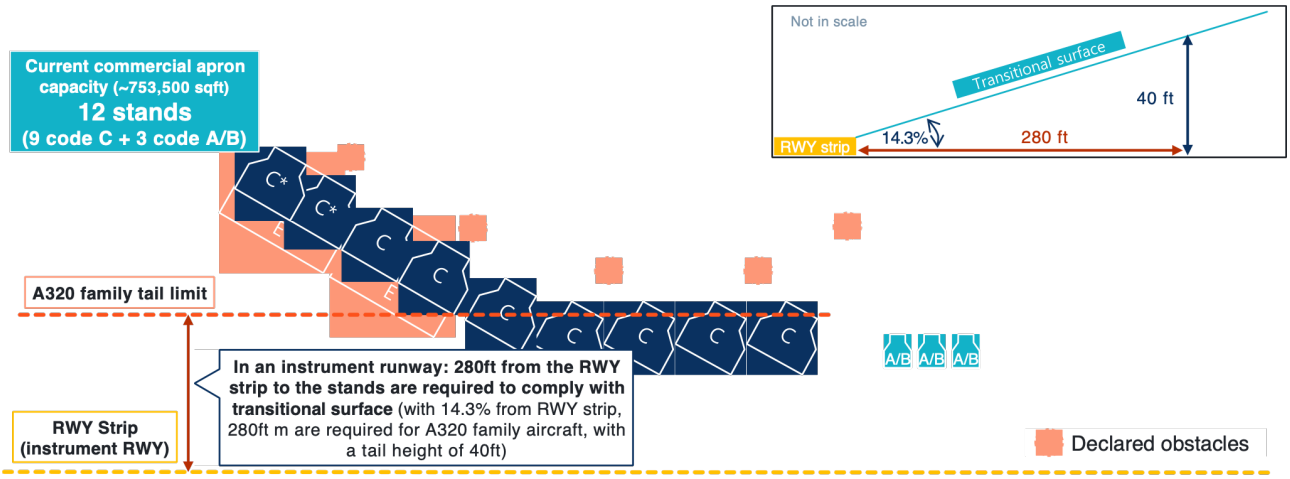


Figure 5. Pre-identified non-compliance under the Do-Nothing scenario

It is a common practice in the region to comply with transitional surface requirements in new infrastructure developments and warning about non-compliant current infrastructure in the AIP, thus not affecting airport operation.

Therefore, the Redevelopment Project should take this issue in consideration and implement the required mitigation measures or resolve the existing situation.

Airfield Capacity

PLS airfield capacity is 7 ATM/h according to site visit inputs; but published schedules show higher peaks, which should be translated into delays. The airport has a non-instrument runway and arrivals are separated ~12-15 min as indicated in the site visits. With this separation, capacity can difficulty increase above 7 ATM/h.

Demand shows peaks of 16 scheduled ATM/h plus the FBO operations, so higher capacity than the one declared is currently in place. Several infrastructure solutions have been analysed to assess the impact of implementing each one:

1. Turn pad located 2,000 m from THR 10: A quick win after reducing separation between approaches is the construction of a turn pad, common in Caribbean airports. Capacity increases to 17-19 ATM/h. The new turn pad would normalize backtracking of aircraft before reaching the end of the runway, a practice already performed by some aircraft without complying with ICAO guidelines (only allowed if there is a turn pad enabled).
2. Partial TWY for departures on THR 10: The development of a TWY connecting the apron and THR 10 would have a minimal impact, increasing airfield capacity to 19-21 ATMs/h (+2 ATMs/h).
3. Partial TWY for arrivals (2,000 m from THR 10): The development of a TWY at 6,560 ft from THR10 (for arrivals) would increase airfield maximum capacity up to 20-23 ATMs/h (+3 ATMs/h)
4. Full Parallel TWY: The maximum capacity would be achieved developing a full TWY, which would increase capacity up to 26-28 ATMs/h

Three phases have been proposed to increase airfield capacity: a new turn pad (2024), the TWY for departures (2026) and the TWY for arrivals (2029):

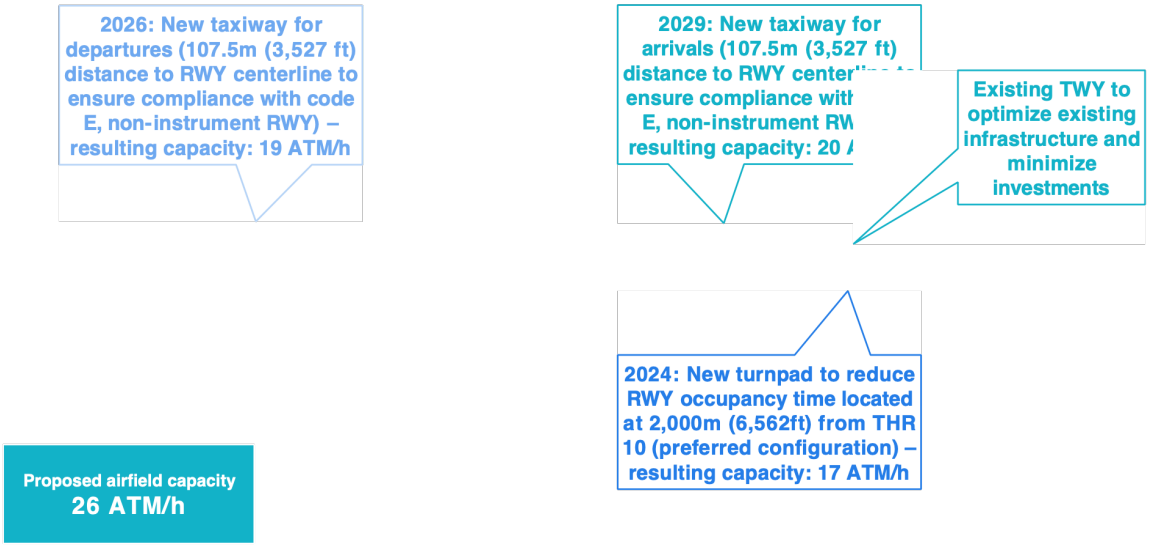


Figure 6. Airfield proposed development phasing

The capacity-demand analysis shows that current apron (9 code C +3 code B stands) is not enough to accommodate the short-term demand and thus expansions are envisaged:

1. **Quick-wins: Reconfiguration of existing DOM apron and minor expansion of INT apron to the West.** Expansion of existing international commercial apron to the west to provide 3 additional code C stands.
2. **Short/Mid Term: Reconfiguration and expansion of existing DOM apron and reconfiguration and expansion of INT apron to the North.** Reconfiguration and expansion of the domestic stands to increase capacity to up 9 code B stands. Reconfiguration and expansion of existing international commercial apron to the west to provide 12 code C stands with an inner taxiway compliant with the new parallel taxiway

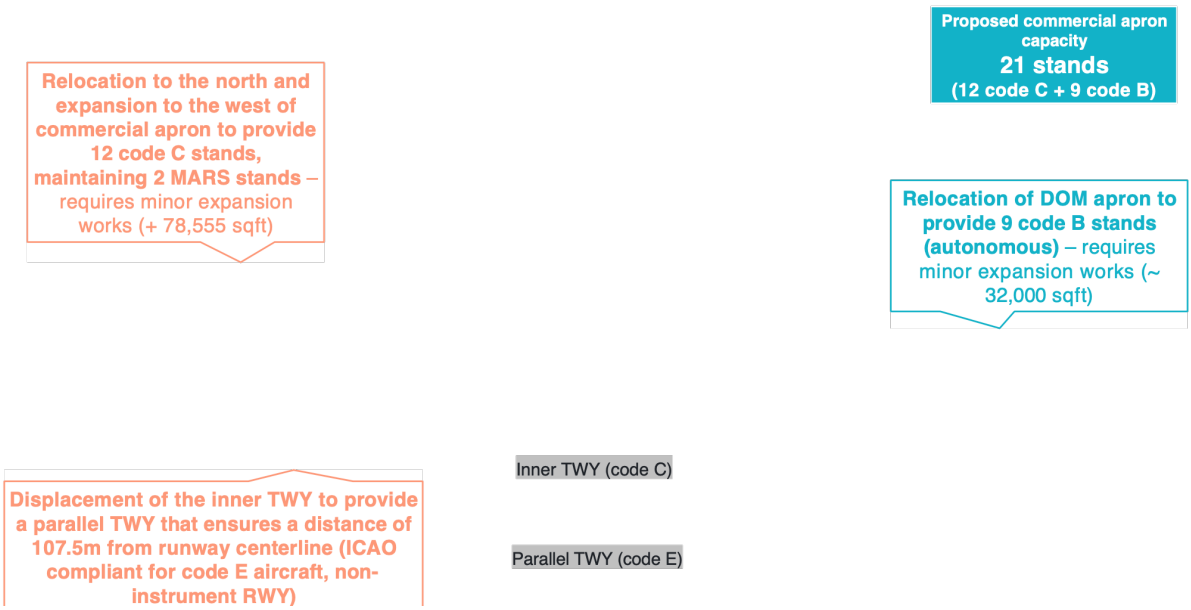


Figure 7. Commercial apron proposed development (Short-Mid Term expansion)

Quality of Service

The fact that aviation is an internationally standardized business with specific quality levels and standards, established by IATA as international best practice, it is cornerstone for the airport to provide its services to airlines and passengers with the required quality.

For that reason, a detailed capacity-demand analysis was conducted in order to address the current saturation perceived and validated on-site in the different airport sub-systems, to ensure that any future development complies with established thresholds for Service Level (LoS) and enhance overall passenger satisfaction and quality perception.

The analysis carried out shows major congestion in the terminal building already with the current condition and 1.2 Mpax, especially for INT subsystems' equipment (detailed capacity-demand analysis and development works required are detailed on Annex 1.2):

		Available	2022	2027	2035	2045	2053
	Annual Passengers (Mpax)		1.2	1.6	1.9	2.0	2.2
Departures	Check-in - International	24	138%	146%	150%	154%	158%
	Required equipment		33	35	36	37	38
	Check-in - Domestic	10	30%	40%	50%	50%	60%
	Required equipment		3	4	5	5	6
	Self Check-in - International	10	60%	60%	70%	70%	70%
	Required equipment		6	6	7	7	7
	Self Check-in - Domestic	0	0%	0%	0%	0%	0%
	Required equipment		0	0	0	0	0
	Security Control - International	2	250%	250%	250%	300%	300%
	Required equipment		5	5	5	6	6
	Security Control - Domestic	1	100%	100%	100%	100%	100%
	Required equipment		1	1	1	1	1
	Gates - International	4	200%	250%	225%	225%	225%
	Required equipment		8	10	9	9	9
	Gates - Domestic	1	200%	600%	800%	800%	800%
	Required equipment		2	6	8	8	8
Arrivals	Immigration - International	14	143%	121%	114%	114%	114%
	Required equipment		20	17	16	16	16
	Baggage Belts - International	2	150%	150%	150%	150%	150%
	Required equipment		3	3	3	3	3
	Baggage Belts - Domestic	1	100%	100%	100%	100%	100%
	Required equipment		1	1	1	1	1
	Customs - Primary inspection	3	33%	33%	33%	33%	33%
	Required equipment		1	1	1	1	1
	Customs - X-ray	1	100%	100%	100%	100%	100%
	Required equipment		1	1	1	1	1

95% No congestion 100% Full capacity 115% Congestion 140% Saturation

The number of check-in counters is not enough to accommodate the existing demand

INT security control is saturated causing long queuing areas that are allocated in front of the check-in area requiring +3 additional lanes

The terminal has 4 INT boarding gates, which are not enough to accommodate the existing demand (although there are 10 screens)

The C-D analysis assumes the reduction of the average passenger processing time as a result of the new automated passport control booths that are planned at the airport

INT baggage claim belts are not enough to accommodate the existing demand (2022). The belt's length does also not provide an adequate LoS

Figure 8. IATA analysis of terminal capacity – Equipment requirements

In terms of areas, congestion is more evident in DOM areas, while the INT boarding area and baggage claim area is also congested.

		Available	2022	2027	2035	2045	2053
	Annual Passengers (Mpax)		1.2	1.6	1.9	2.0	2.2
Departures	Departures & Arrivals Hall	6,727	186%	200%	210%	215%	219%
	Required Area (sqft)		12,522	13,445	14,095	14,435	14,705
	Check-in Area - International	3,552	82%	88%	91%	93%	94%
	Required Area (sqft)		2,928	3,111	3,218	3,305	3,326
	Check-in Area - Domestic	969	21%	29%	40%	40%	50%
	Required Area (sqft)		205	280	388	388	484
	Security Control - International	1,830	59%	59%	59%	71%	71%
	Required Area (sqft)		1,076	1,076	1,076	1,292	1,292
	Security Control - Domestic	118	273%	273%	273%	273%	273%
	Required Area (sqft)		323	323	323	323	323
	Boarding Areas - International	15,974	117%	125%	130%	132%	133%
	Required Area (sqft)		18,623	19,959	20,745	21,056	21,304
	Boarding Areas - Domestic	1,119	256%	292%	418%	509%	578%
	Required Area (sqft)		2,861	3,274	4,677	5,694	6,476
Arrivals	Immigration - International	5,920	27%	28%	29%	29%	29%
	Required Area (sqft)		1,604	1,668	1,722	1,722	1,722
	Baggage Claim - International	8,934	173%	165%	172%	174%	176%
	Required Area (sqft)		15,476	14,743	15,324	15,553	15,737
	Baggage Claim - Domestic	388	99%	113%	182%	222%	253%
	Required Area (sqft)		384	440	707	860	978
	Customs	2,325	18%	18%	18%	18%	18%
	Required Area (sqft)		420	420	420	420	420

95% No congestion 100% Full capacity 115% Congestion 140% Saturation

INT queuing area for security screening would be enough if there were 5 lanes available

DOM queuing area for security screening is not enough to accommodate the existing demand

INT boarding area is also congested showing the need of increasing the facility in the short-term

DOM boarding area shows significant congestion level requiring to double existing capacity to provide an adequate LoS

INT baggage claim area shows significant congestion, i.e. existing area is not enough to provide an adequate LoS

Figure 9. IATA analysis of terminal capacity – Area requirements

Based on international benchmarks, the expansion of the terminal building will be needed to upgrade the level of service as traffic grows.

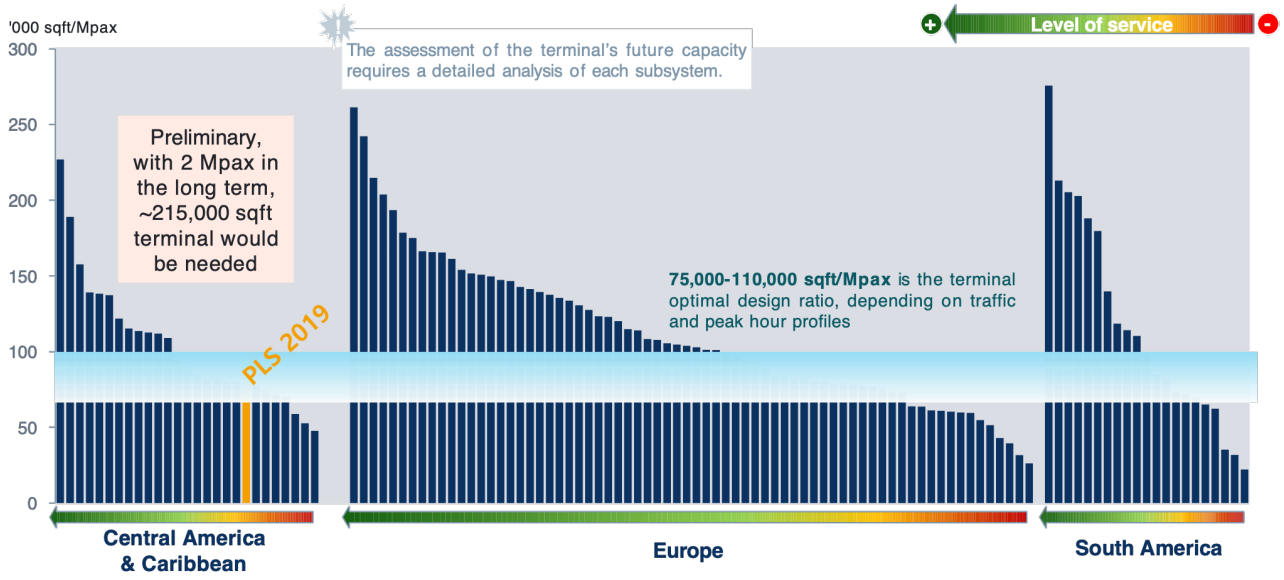


Figure 10. Terminal Building Area vs. Passenger Traffic Benchmark

Given the current saturation of the terminal, two development phases have been considered to cope with the expected demand without constrains.

1. **On-going projects:** Several on-going projects in the airport (South area) such as a new control tower, ARFF facilities are being relocated, Maintenance & administration facilities and other projects: e-Gates, canopy projects. However, none of these projects tackles the compliance nor the capacity constraints existing at the airport.
2. **Quick wins (Target capacity 2027): Refurbishment of the current terminal building** would provide an initial enhancement of the Level of Service by:
    a. Expanding the international passenger area using domestic area and moving domestic flows to the current ARFF area.
    b. Expand the international lounge by moving the airline offices to a temporary building.
3. **Short/Mid Term expansion (Target capacity 2035): Construction of a new passenger terminal building** as preferred option with an estimated area of 20,000 – 25,000 sqm (to be commissioned by 2029 in order to meet with forecasted demand). Architecture to integrate the local atmosphere (Caribbean look & feel) and the high-class product offering. Detailed design would be part of the Private Partner subject to minimum specific requirements in terms of Level of Service and design considerations.

Detailed plans, solution to current challenges as flow crossing (solved by dedicated buses) and reference project for evaluation and improvement by the Private Partner in their bid submission have been developed and can be found on Annex 1.2.

2.1.4. Service Delivery

Based on the afore-described Project Scope (redevelopment of the Howard Hamilton International Airport – Providenciales International Airport -), and its infrastructure requirements, a broad set of conceptual options for Service Delivery was analysed.

There are several models to finance, operate and maintain an airport development initiative while retaining the public ownership of the asset:

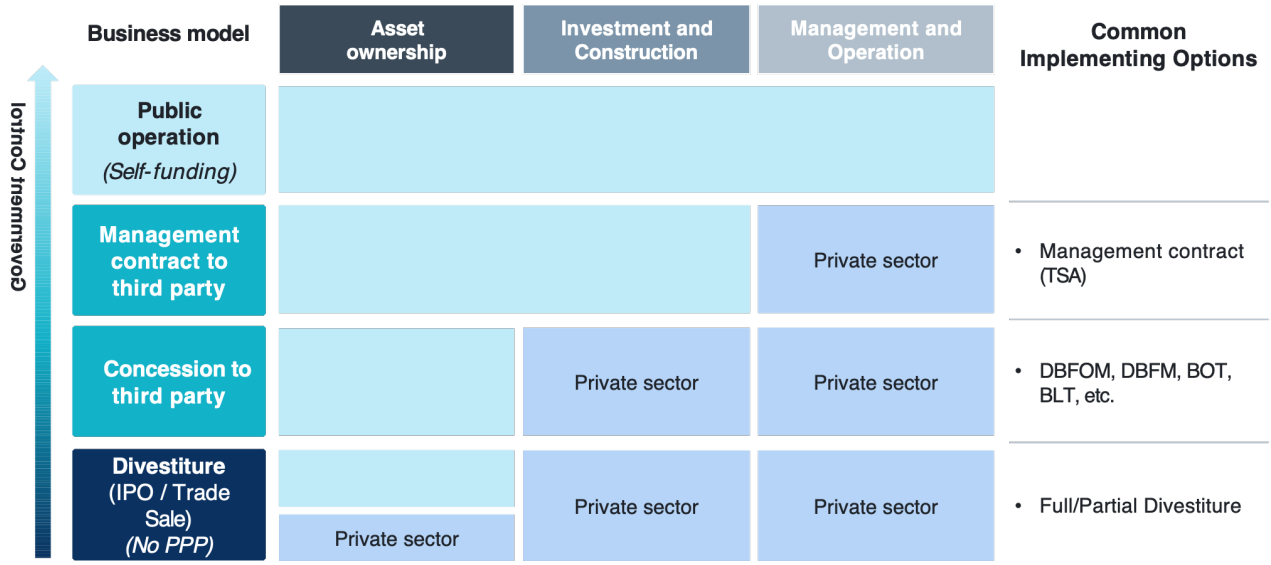


Figure 11. Overview of alternative Business Models for airport development

In this sub-section, potential methods of service delivery are introduced and narrowed-down to the most-feasible alternatives.

1. **Existing service model – Public operation with self-funding:** This option is based upon government procuring services to the private sector and/or executing services directly, depending on the capacity and capability of the government departments and local civil service, with government also providing funding and financing. The advantage of this is that government retains full control of all aspects of service delivery and therefore is able to specify and adapt these to its own requirements. The disadvantage is that the ability to transfer risk to the private sector is not possible in cases where there is no private sector involvement. In conclusion, given the scale of complexity of the project at hand, this model was seen as viable only for a limited scope of the infrastructure development plan.

2. **Management Contract to third party:** In order to transfer part of the operational risk and bring-in international sector experience and best practice, an intermediate service model in which a Private Party Manages and Operates the infrastructure in exchange of a Management Contract remunerated as a percentage of EBITDA (common industry practice for the aviation sector) is considered. These contracts commonly result in overly-costed investments since there is no implication for the Private Party to optimize the development of the infrastructure on their retribution. It also requires from a technical counterpart from the public sector and oversight capabilities (additional cost) in order to prevent and manage potential conflicts to ensure the successful implementation of operational enhancement measures proposed by the Private Sector. The Public Sector still retains the investment and financing risks, altogether with the inherent demand risk of the facility.

3. **Public-Private Partnership - Concession to Third Party:** a broad spectrum of alternatives is included under this delivery option:

    a. **DB+OM** – This option is based upon a turnkey design and build contract and a separate operating and maintenance contract – awarded to two different entities. The advantages are that new infrastructure for any future extensions can be procured directly by the public sector and the operating/maintenance contract to be extended to cover the entire system. Also, responsibility for operation and maintenance rests with the same entity (avoiding issues associated with DBFM+O for example, as described below). The main disadvantages include lack of optimal whole-life cost and integration risk between D&B and O&M elements remaining with the Authority. In conclusion, while this option covered some of the requirements, it was considered sub-optimal based on the potential of other options.

    b. **DBOM** – This option is based upon a single concessionaire being appointed as the sole point of accountability for all aspects of the project other than financing. Primarily these include design, build, operation, and maintenance. The advantages include integration risk being fully transferred and the incentive of whole life costing. The main disadvantage is that is that it requires upfront public-sector capital funding. In conclusion, while this option covered a substantial amount of the Public Sector requirements, it was considered sub-optimal based on the potential of other options.

    c. **DBFM+O** – This option is based upon a DBFM contractor being responsible for providing the infrastructure under a long-term contract and being entitle to the collection of operational revenues. A separate operating company is awarded a short-term operating concession. The main advantages include upfront public-sector capital funding not being required and whole-life costing benefits as the same entity is responsible for design, construction, and maintenance (but not operations). The main disadvantages include interfaces with third parties and disputes at these interfaces likely to result in additional cost for the public sector and retention of long-term revenue risk by the authority due to the short operating contract. In conclusion, this model still retains the disadvantages of the Management Contract.

    d. **DBFOM** – This option is based upon a single concessionaire being appointed as the sole point of accountability for all aspects of the project, including design, build, financing, operation and maintenance. The advantages include integration risk being fully transferred, the largest incentive for whole life costing and the largest incentive to achieve passenger-focused outputs. The main disadvantage is that long-term demand risk transfer may be unattractive to funders, which can be mitigated by demand triggers for the most critical investments. **In conclusion, this was considered the most desirable option, subject to further investigation of the Value for Money vs. Public operation with self-funding (existing model).**

4. **Divesture in the form of IPO / Trade Sale (partial or total):** IPOs are a common method for airports to raise capital from the public markets. Additional advantages include improved financial transparency and public scrutiny on top of the access to a large pool of capital which can be used for infrastructure development and expansion projects. Their public listing also promotes greater accountability and transparency in airport management and decision making. However, IPOs also pose disadvantages based on the pressure to satisfy shareholders prioritizing short-term financial gains over long-term strategic investments to improve and develop the infrastructure and quality of service. Total or majority share IPOs may lead to the loss of public control over airport management and decision making, but also raise issues with respect to asset ownership (land, strategic consideration of airport facilities) which add legal considerations to be addressed. **Based on the strategic consideration to retain asset ownership, this was considered a sub-optimal option subject to the feasibility of other options.**

Attracting international expertise and raising capital while maintaining ownership of the airport are the basic strategic premises established by the Project Team based on TCIAA and TCI Government preferences.

Comparing the various options:

Based on the strategic requirements, scope of the development plan, following a logic flow with the criteria established by the Project Team, the preferred options are within the "Concession" cluster or a Management Contract with Self-funding whose final decision will be carried out based on the Value for Money exercise.

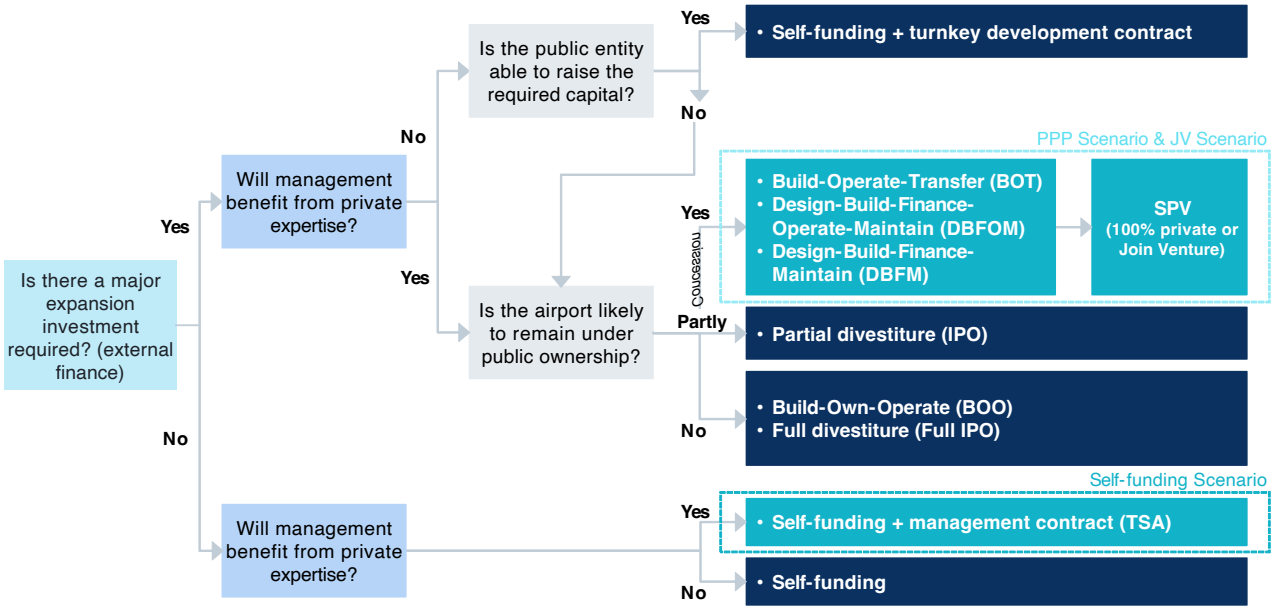


Figure 12. Decision Tree for the selection of preferred Service Delivery Options

A concession becomes more feasible at airports with higher amounts of investment requirements and the complexity of the operation:

	Concession to a private investor/operator	Management contract to a private investor/operator
PROS	– **Main risks transferred** to the private operator including demand, financing, construction, and operation – **Benefits from private international expertise** – **Assurance of a continuous flow of revenues** to fund operations, maintenance, and investments of the rest of the network not included in the PPP – **Consolidated PPP scheme**, known by airport operators, investors and institutions – In the case of TCI, **no impact on country's debt**	– **Usually simpler/easier to implement** – Allows **greater flexibility** to TCIAA and TCI Government, which may change the scope of the contract as needed – **Shorter long-term commitments** for TCIAA and TCI Government (depends on the structuring of the contract) – TCIAA and TCI Government would **retain the total control of the asset**
CONS	– Concessions are usually **more complex**, which implies **higher transaction costs and performance monitoring** – As a long-term contractual commitment, a concession implies **higher rigidity and lower flexibility**	– **TCIAA and TCI Government would retain relevant risks**, depending on the scope of the contract – **Public investment to upgrade the airport**, although no impact on country's debt – **Difficulty to attract relevant international players** due to potential lack of interest in this type of contract – **Risk of abandonment** from the private operator since they do not have an investment to recover – **Interface risk** between the completion of construction due to public procurement and operations & maintenance

Figure 13. Qualitative evaluation of Concession vs. Management Contract Alternatives

In a concession, risks are retained, transferred or shared while in a management contract it would depend on the scope of the contract:

	Concession to a private investor/operator	Management contract to a private investor/operator
Private operator	– **Main risks are transferred to the private operator:** o **Financing** of the investments o **Design and Construction Demand** o **Operation and maintenance** o **Commercial** o **Environmental and social** o **Force major** o **Regulation**: changes in the regulation	– **Risks transferred will depend on the services provided by the private operator** (indicated with *): o **Interface risk** between the completion of construction and operations & maintenance o Operator depends on the **government's capacity to conduct the investments on time** (public procurement) o **Demand** (*) o **Commercial** (*) o **Operation and maintenance**
	– Only few risks are retained or shared with the private operator: o **Concession fee:** revenue sharing agreement o **Environmental and social** o **Force major** o **Regulation:** changes in the regulation	– **TCI Government and TCIAA would retain relevant risks**, depending on the scope of the contract (indicated with *): o **Financing of the investments** o **Design and Construction** (*) o **Demand** (*) o **Commercial** (*) o **Management fee** (payment of the service) o **Environmental, social, and force major** (*) o **Regulation:** changes in the regulation

Figure 14. High-level risk assessment of concession vs. management contracts

2.1.5. Project Implementation

The length of time it would take to implement the project would ultimately be a function of the service delivery solution and the project scope; the wider the development scope, the longer the implementation time would be under a Public Operation with Self-Funding model as the experience with minor development projects showcases.

Once the choice of the Service Delivery model is made there are likely to be limits on the extent to which the project implementation time can be accelerated since they all would fall under specific procedures either for traditional procurement and/or for the selection of a Private Partner to execute the development plan. Nonetheless, there are some trade-offs to consider. Project implementation time can be reduced in a number of ways, for example: daily construction working hours can be increased, and/or construction can take place in more than one geographical location simultaneously.

In conclusion, following internal discussions and comparable international and regional (Caribbean) experiences regarding these factors and trade-offs, it was decided that ***the established time horizon for the selection of a preferred Private Partner should be made by Q4-2023***, followed by the start of development works upon signature of the Concession Contract.

2.1.6. Project Funding and Financing

Financing typically refers to the capital raised (usually in the form of debt or equity) to execute the development project. Funding refers to the amounts that are used to pay for a project over time and would comprise, at a minimum, the repayment of such debt (including financial costs) and equity as well as any expected returns.

The Redevelopment Project has been structured as a Project Finance case, where various possible combinations regarding sources of financing can be structured depending on whether the public or private sector is financing and funding the project, though the differences between them ultimately lie in the way in which the contractual obligations of the parties are specified. For the purposes of this business case, the Project Team has outlined the main high-level options available, and indicated its preferences amongst them.

1. **Funding Option #1 - Publicly funded and financed:** This option is based upon the traditional way in which projects are funded and financed – directly out of the available resources of the TCIAA and Government capability to issue additional debt. Typically, Central Government would use tax revenues or, if these investments were not included in the legislative accounts or the country is running a fiscal deficit, issue Government debt (or a combination of the two) to pay for the upfront and ongoing project costs. Any project income, such as user charges or other revenue streams from the project, would typically be classed as government revenue and effectively offset the costs.

   The project would show up on government's accounts. Finance costs can become cheaper under this option based on country's rating and inclusion of loans or grants from multinational development banks (MDBs) and green or climate bonds for projects with climate change mitigation or adaptation. Opportunities for risk transfer to the private sector would depend on the form of contracts agreed with any private sector suppliers (mainly contractors for the construction works to be executed)

   This option was retained as the comparator against which any PPP option would be considered but was also considered a possible option in its own right primarily due to the lower cost of finance.

2. **Funding Option #2 - Publicly funded with Private Financing (PPP based on availability payments):** Under this scheme, government agrees to fund the total project costs by raising financing from the private sector rather than using tax revenues and/ or Government Bonds. Ultimately, the project is paid for by the public sector and the private sector is paid for the project as long as it delivers on its obligation to the make the asset available for its use.

   The main advantage of this option is that the risks for bringing the project to an operating phase are usually borne by the private sector, as the need to ensure that the project is in operating is imposed to enable the collection of their availability payment. The main disadvantage is that the cost of private as against public finance may be considerably higher.

   In conclusion, this option was not considered optimal due to the fact that it removes the benefit from cheaper public financing and generates additional availability payments to the Private Operator.

3. **Funding Option #3 - Privately funded and financed (Concession based PPP):** Since the project is likely to be viable on a stand-alone basis, the government may decide to let the private sector run the project for a set period of time (up to 30 years) during which the private sector is expected to raise the finance necessary, design, build, operate and maintain the project, and be able to make a return on its investment.

   This option allows the government with enhance flexibility, setting a basic set of requirements (e.g., scope of the development project and triggers for the execution of critical works) to a more detailed set of requirements that may include detailed quality of service standards, non-aeronautical activity enhancement and technological improvements. The main disadvantage is that the concessionaire would need to be comfortable with its ability to generate a profit. However, the visibility of the airport fees and charges contributes to de-risk this dimension, limiting the exposure of the private sector to the intrinsic demand risk which is also reduced due to the fact that there is an existing passenger demand base and a tariff structure that is known to be acceptable.

This option has been considered the preferred approach, subject to the financial viability of the project addressed on the Financial Model with a proposed financial structure for the tendering process, as well as to the final gearing structure to be established by the Private Partner.

Based on the nature of the Project and the infrastructure as a self-sustainable business, Funding Option #3 was selected as preferred option, since attractive returns for the Private Sector could be proven based on the Financial Model developed for the evaluation of the different alternatives as shown in Annex 1.7.

Any additional analysis and the final funding and financing scheme will be delivered by the selected Private Partner once appointed as part of the Final Business Case to be elaborated as requirement before Contract Signature.

2.1.7. Creating the Short-List

The Short-List of options includes:

1. **Do-minimum with public funding (for the purpose of CBA assessment):** PLS is already over 2019 traffic levels, and close to its maximum capacity. It is assumed that without project the traffic will have a lower increase, i.e., an organic growth after reaching the maximum airport's capacity is considered (annual growth of 0.5%).

   Only "quick wins" CapEx investments are considered, which are expected to be fully operational by 2025 including the existing terminal expansion and the RWY turn-pad. Lower growth in aeronautical revenues are expected due to organic traffic growth while new proposed airport fees (DOM departing pax and PBB) are not included

   The resulting unit commercial revenue per passenger is increased after commissioning of the "quick wins" investments, thereafter an annual growth of 1% is assumed. Maintenance CapEx investments estimated in the PPP scenario are maintained. Resulting unit operating cost per passenger includes some small operational efficiencies (annual decrease of 0.2%) but no major changes on the operational performance has been taken into consideration

2. **Redevelopment Project Execution under Self-Financing or Traditional Procurement including a Management Contract (TSA):** The construction works as well as the operation and management of PLS continue to be responsibility of TCIAA (no impact on country's debt). TSA contract included with a 3% over EBITDA as retribution to the selected operator.

3. **Redevelopment Project Execution under a PPP Model:** The construction works as well as the construction, operation, management, and financing of PLS are transferred to an international private operator + local player.

The preferred option, based on the afore-described rationale and supported by **the exhaustive CBA and VfM analysis presented in the following sections is the Redevelopment Project Execution under a PPP Model.**

2.2. Qualitative benefits and Risk analysis

2.2.1. Qualitative Benefits

Project Execution as PPP comprises a set of Qualitative Benefits to be weighted in the decision to move forward with it as preferred option:

1. **Access to Private Sector Expertise:** PPP brings in private sector expertise and efficiency to public sector projects. Private sector partners can bring valuable expertise in design, construction, and management of airport facilities, which can improve the quality and efficiency of the project.
2. **Capacity Building and Development at Country Level:** the engagement of Tier 1 Airport Operators, infrastructure developers, construction companies and specialists while bring high-value known-how to the country, and the transmission and absorption of these best practices and methodologies will result on added-value for the society.
3. **Innovation:** PPPs can encourage innovation by promoting new ideas, technologies, and business models. This can lead to the development of new and improved airport facilities and services that meet the needs of passengers and airlines.
4. **Long-Term Perspective:** PPPs typically involve long-term contracts, which can help to ensure that the airport is developed and managed with a long-term perspective. This can lead to better planning and investment decisions, which can improve the overall sustainability of the airport and the country itself.
5. **Opportunity Cost of Financial Resource Allocation**: required debt to execute the project with Public funding would generate an opportunity cost to allocate these Public resources onto projects of pure development cost such as hospitals, social housing, water flooding prevention, environmental conservation, roads, etc. In these projects, any Private partner will ask for payments from the Public Sector, however, airport operation is a self-sustaining activity that requires from little to zero Public Funding when properly structured and managed, thus allowing the Public Sector with the resources to implement additional projects that are not self-sustainable.

2.2.2. Risk analysis

The Risk Analysis will allow the economic assessment of each identified risk and will serve as the basis for calculating the Value for Money (VfM).

The deviations, both in terms of costs and income that projects suffer throughout their life cycle are due to the presence of Risk Factors, which have some chances of occurring and which, if they occur, will produce an impact for a certain amount.

The objective of Risk Analysis for the PPP is the identification and evaluation of potential risks that could affect the normal development of the project, as well as the proposal of mitigation measures and clauses to be included in the contract.

For this process, the following steps have been carried out:

1. **Identification of the Risk Matrix:** Identification of possible events and potential causes that, if they occur, would have a negative impact on the outcome of the project. The main risks identified are categorized according to the phase of the project in which they may appear and their possible consequences. Eight main categories have been established that encompass over 80 pre-identified risks.

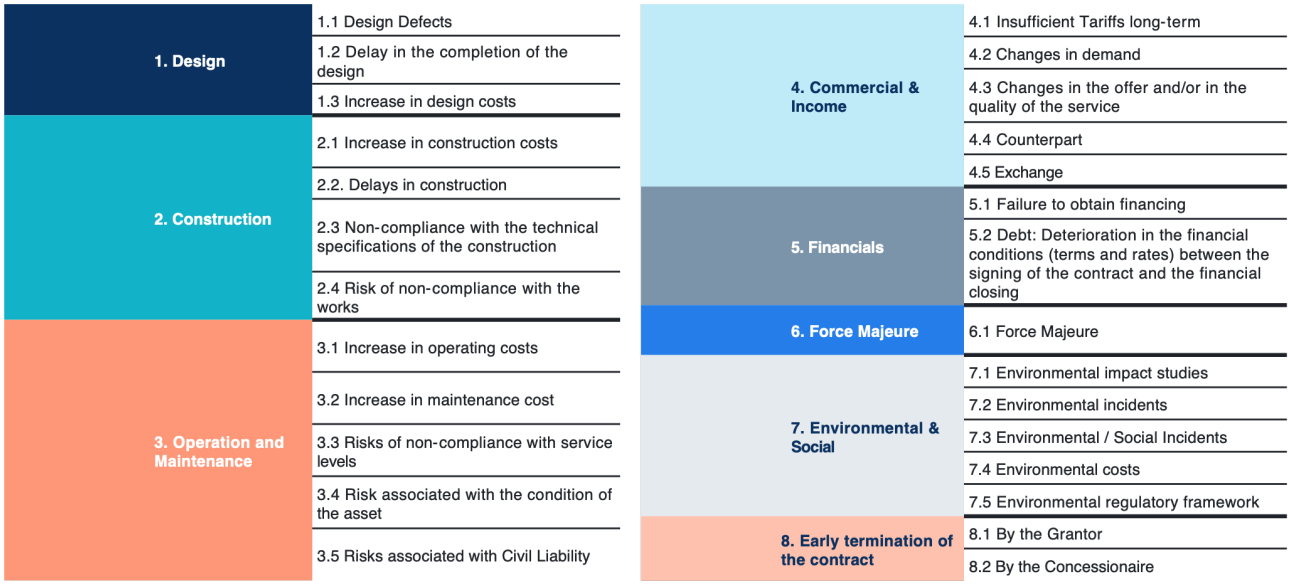


Figure 15. Risk Identification Categories

2. **Impact Risk Assessment and probability of Occurrence:** Quantification of the risks identified by their probability and impact and assignment of a monetary value. The assignment of the Impact Risk represents the consequences that a risk would entail in the event of its manifestation, including its severity. Once the main risks have been identified, the objective is to quantify the selected risks through their Impact Risk and Probability of Occurrence. The quantitative evaluation of Impact Risk and Probability of Occurrence is based on the evaluation and criteria of the group of experts. Based on the criteria and experience of the experts, a quantitative evaluation was carried out consisting of the quantification from 1 to 5 of the impact of each one of the risks in the PPP and the probability of occurrence of each one. The assessment of the group of experts on each one of the risks is based on the information available for the current stage of the project and is based on reference values obtained in its previous experience and benchmark of processes in similar airports in Central America and the Caribbean under the PPP model. The criteria used to assign impacts and probabilities are shown below:

Impact Risk	Impact	Criteria	Expert Assessment	Impact
Critical (C)	Greater than or equal to 20%	Any impact that could lead to the **cancellation of the project**	1	**30%**
Severe (S)	Less than 20%	Any impact that **jeopardizes the objective** of the project or that may lead to a **significant impact in the long term**	2	**15%**
Moderate (Mo)	Less than 10%	Any impact that would cause a significant **change in planning** or could lead to a **noticeable and unwelcome effect on the project**	3	**7.5%**
Minimum (Mi)	Less than 5%	Any impact that could be dealt with **within the project team** and would **not have any long-term effect**	4	**5%**
Negligible (D)	Less than 1%	Any impact that **insignificantly** affects or **does not produce a significant adverse effect on the life cycle of the project**	5	**1%**

Figure 16. Impact Risk Assessment

Probability of occurrence	Probability	Description	Expert Assessment	Probability
Very High	100% -91%	The risk is **very likely to occur** during the project life cycle	1	**95%**
High	90% - 61%	The risk is **likely to occur** during the project life cycle	2	**75%**
Moderate	60%-41%	The risk **may or may not occur** during the project life cycle	3	**50%**
Low	40%-11%	The risk is **very unlikely to occur** during the project life cycle	4	**25%**
Very Low	10%-0%	The risk is **unlikely to occur** during the project life cycle	5	**5%**

Figure 17. Risk Probability Criteria

The combination of both parameters (Impact Risk and Probability of Occurrence) in table format, allows visualizing what type of risks can be classified globally as High (H), Medium (M) and Low (L).

Probability of occurrence		Impact Risk				
		Critical (C)	Severe (S)	Moderate (Mo)	Minimum (Mi)	Negligible (D)
		≥ 20%	20% -10%	10% - 5%	5% - 1%	< 1%
Very High	100% -91%	H	H	H	H	M
High	90% - 61%	H	H	M	M	M
Moderate	60%-41%	H	M	M	M	L
Low	40%-11%	H	M	M	L	L
Very Low	10%-0%	M	M	L	L	L

Figure 18. Risk Assessment Matrix

3. **Risk Mitigation:** Determination and assignment of mitigating elements for each of the risk factors identified above.

4. **Clauses that should be included in the contract:** Preliminary drafting of the proposal for the clauses to be included in the contract and assignment of responsibilities.

The information obtained from the different stages is translated into a general matrix format. It incorporates a categorization of the different risk factors and their causes, their probability of occurrence and potential impact, classification (retained, transferred, or shared) and pre-identified mitigating elements are indicated. This matrix constitutes one of the reference elements for the calculation of Value for Money through the Public Sector Comparator.

The Risk Matrix presents the Intensity assigned to each of the identified risks and will be used in the Public Sector Comparator. For the final construction of the Matrix, each of the risks is assigned a percentage that represents who assumes it, depending on whether it is the State 100% (Retained), the private entity 100% (Transferred) or is shared 50% by the State and the private operator. The Risk Intensity (its quantification over the reference value) is obtained by multiplying the Impact by the Probability of Occurrence. This is an illustrative sample of the detailed Risk Matrix included in Annex 3:

RISK MATRIX OF CONTRACTS IN THE FRAMEWORK OF PRIVATE INITIATIVE PROMOTION PROCESSES										
Type of register	What is the risk?	How does the risk arise?	Risk Allocation			Impact Risk (1-5)	Probability of Occurrence (1-5)	Impact	Probability of Occurrence	Intensity / Expected Loss
			State	Private	Does not apply					
1. Design	1.3 Increase in design costs	1.3.1 Increase in the costs of elaboration of the Project		100%		4	3	5.0%	50.0%	**2.50%**
2. Construction	2.1 Increase in construction costs	2.1.1 Variation in investment costs due to a greater number of works not foreseen by the Private		100%		4	4	5.0%	25.0%	**1.25%**
		2.1.2 Increase in investment costs due to higher prices of supplies and equipment		100%		4	3	5.0%	50.0%	**2.50%**
		2.1.3 Changes in the General Legal Framework that affect the construction process		100%		4	3	5.0%	50.0%	**2.50%**

Figure 19. Risk Matrix Illustrative Sample

To carry out the afore-described steps, a selected group of experts has been used, integrated into the consulting team assembled by ALG.

This team is made up of investment experts, airport experts worldwide, PPP technical experts and PPP financial experts with previous experience in airport PPP structuring projects worldwide, in Central America and in the Caribbean.

The risks with greater intensity are those related to the increase in costs and delays in construction (22.8% and 20.0%, respectively):

Intensity / Expected Loss		
1. Design	1.1 Design Defects	2.6%
	1.2 Delay in the completion of the design	8.8%
	1.3 Increase in design costs	2.5%
2. Construction	2.1 Increase in construction costs	22.8%
	2.2.Delays in construction*	20.0%
	2.3 Non-compliance with the technical specifications of the construction	12.5%
	2.4 Risk of non-compliance with the works	6.3%
3. Operation and Maintenance	3.1 Increase in operating costs	16.3%
	3.2 Increase in maintenance cost	1.9%
	3.3 Risks of non-compliance with service levels	5.0%
	3.4 Risk associated with the condition of the asset	1.3%
	3.5 Risks associated with Civil Liability	1.3%

Intensity / Expected Loss		
4. Commercial & Aeronautical Revenues	4.1 Insufficient Tariffs long-term	15.0%
	4.2 Changes in demand	5.3%
	4.3 Changes in the offer and/or in the quality of the service	6.9%
	4.4 Counterpart	11.5%
	4.5 Exchange	6.3%
5. Financials	5.1 Failure to obtain financing	3.8%
	5.2 Debt: Deterioration in the financial conditions (terms and rates) between the signing of the contract and the financial closing	9.4%
6. Force Majeure	6.1 Force Majeure	5.0%
7. Environmental & Social	7.1 Environmental impact studies	3.8%
	7.2 Environmental incidents	2.8%
	7.3 Environmental / Social Incidents	0.0%
	7.4 Environmental costs	1.9%
	7.5 Environmental regulatory framework	1.9%
8. Early termination of the contract	8.1 By the Grantor	1.5%
	8.2 By the Concessionaire	1.5%

Figure 20. Assessment of Risks Intensity

The Risk Allocation will allow the economic assessment of each identified risk and will serve as the basis for calculating the Value for Money (VfM).

In this phase of the project, processes 3 and 4 have been developed in a preliminary version and will be developed in detail in the Structuring Phase, based on the inputs received from the Legal Team.

2.3. Cost-Benefit Analysis Results

The PPP project for the development of the airport of Providenciales (PLS) is a project of improvement and investment for the country. Based on the General Methodological Guide for the Formulation and Evaluation of Public Investment Programs and Projects, the Project can be described under three main considerations:

- **Type of project: Income Generating Project** as it operates under private logic and is promoted by public institutions to provide economic benefits (or even social merits) and generates income for its self-sustainability. **Project that generates "Qualitative Benefits"** since the effects that it will have will produce an unquestionable benefit, but of difficult valuation.
- **Purpose of the project:** The purpose of the project is a **Real Investment**, since it is focused on physical construction works, purchase of equipment, expansions, modernization, and improvement of facilities.
- **Nature of the Project: The project is classified as an Improvement Project** as it carries out construction works aimed at improving all aspects of the quality of service at the airport ensuring at the same time compliance with ICAO standards as well as improvement operational safety.

Among the benefits that the Turks and Caicos society will receive, there are direct benefits, generated by the investment of the project, and indirect benefits, additional, by the development and operation of the airport.

The Socio-Economic profitability is estimated by a dedicated Cost-Benefit Analysis. Cost benefit analyses (CBA) are designed to evaluate whether an alternative (Redevelopment Project Execution) is better or worse than the base alternative (current status without executing the Redevelopment Project) from a socio-economic profitability perspective.

1. **Redevelopment Project Scenario:** considers high investments profile and the introduction of INT best practices that improve the operational performance of the airport. The construction works as well as the operation and management of PLS are transferred to an international private operator + local player.
    a. **Demand:** PLS has already recovered pre-pandemic offer levels and is expected to continue growing at a CAGR of 1.8% (2023-2053) reaching the market cap of 2.2 million annual passengers in the long term.
    b. **Investment Plan:** CapEx investments of USD ~300m are considered driven by the construction of a new passenger terminal building with capacity for 2.5 Mpax. Major maintenance CapEx investments of USD ~65m are also estimated.
    c. **Aeronautical and commercial revenues:** Aeronautical revenues projected to grow at a CAGR of 1.4% between 2028 and 2053 due to the traffic growth and the new proposed airport fees (DOM departing pax and PBB) Commercial revenues assumed to increase with the opening of the new terminal in 2028 improving the unit revenue because of introducing international best practices (1.7% CAGR 2028-2053).
    d. **Operating expenses:** Operating expenses are assumed to decrease to benchmark levels throughout the concession period due to economies of scale and the commissioning of a new terminal building, resulting a CAGR of 0.8% (2023-2053).
2. **No Project Scenario:** estimates that the operational performance remains as it is, with minor enhancements on commercial development and efficiencies.
    a. **Demand:** PLS is already over 2019 traffic levels, and close to its maximum capacity. It is assumed that without project the traffic will have a lower increase, i.e., an organic growth after reaching the maximum airport's capacity is considered (annual growth of 0.5%).
    b. **Investment Plan:** Only "quick wins" CapEx investments are considered, which are expected to be fully operational by 2025 including the existing terminal expansion and the RWY turn-pad. Maintenance CapEx investments estimated in the PPP scenario are maintained.
    c. **Aeronautical and commercial revenues:** Lower growth in aeronautical revenues is expected due to organic traffic growth while new proposed airport fees (DOM departing pax and PBB) are not included.

The resulting unit commercial revenue per passenger is increased after commissioning of the "quick wins" investments, thereafter an annual growth of 1% is assumed.

d. **Operating expenses:** Resulting unit operating cost per passenger includes some small operational efficiencies (annual decrease of 0.2%) but no major changes on the operational performance has been taken into consideration.

Detailed figures and assumptions of the Financial Model supporting the CBA analysis are included in Annexes 1.5 and 1.7.

For the socio-economic evaluation of the project, the project considers the Net Present Social Value (NPSV), an analysis that considers qualitative aspects executed in early stages of project preparation and that has the stages of:

- Identification of social benefits of carrying out the project versus the "no project" scenario. The study includes the quantifiable benefits for each option.
- Identification of different categories of social costs related to carrying out the project versus the "no project.
- Quantification of social costs and benefits.
- Cost-benefit analysis and calculation of indicators of socio-economic profitability of the project such as NPSV and Social Benefit-Cost Ratio (SBCR).

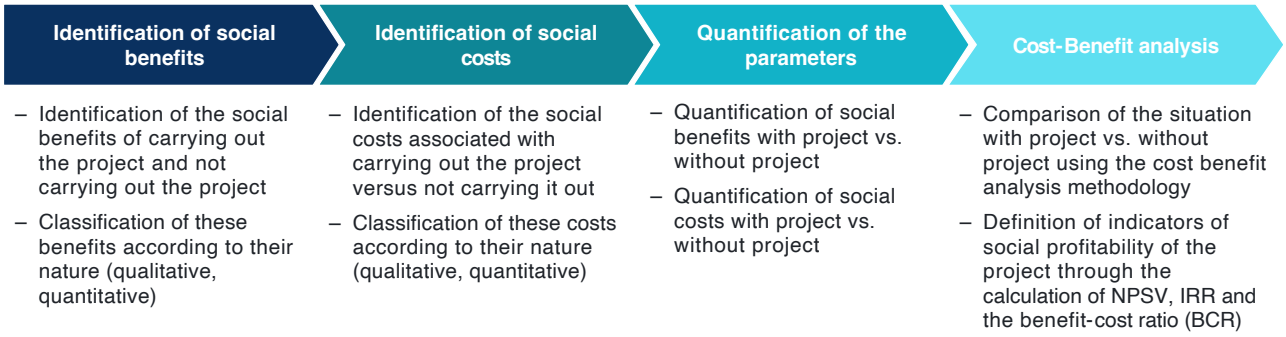


Figure 21. Methodology for the socio-economic evaluation of the project

The methodology used for the cost-benefit analysis is the calculation of the NPSV (Net Present Social Value), which results from the difference between the social economic benefits (BSt) and costs (CSt) generated in a public investment project over time, considering the social discount rate (SDR), which is set at 15.00%, and the initial investment incurred (Io).

$$NPSV = -Io + \sum_{t=1}^{t} \left(\frac{BSt - CSt}{(1 + SDR)^t} \right)$$

The NPSV is calculated by assigning monetary values to social benefits and costs, discounted by an appropriate social discount rate. Projects with NPSV > 0 increase the social value of resources and are generally preferred for implementation as PPPs.

The main quantifiable benefits of the project are linked to demand, tourism development and employment generation.

Benefit Description	Type
Increased attraction of **passenger demand**	**Quantitative**
Improvement of the image projected internationally of TCI as a high-yield tourist destination through the country's entrance doors	Qualitative
Operational enhancement as a result of introducing international best practices	Qualitative
Improvement of the quality of life in the surroundings of the airport environment by maintaining the airport's perimeter and its fencing	Qualitative
Increased level of services for passengers and accompanying friends and relatives	Qualitative
Strengthen technical operational capacities of the airport and increase of the number of direct and indirect jobs	**Quantitative**
Generation of an increase in the local and regional economy	Qualitative
Contribution to tourism development in TCI	**Quantitative**
Reduction and minimization of environmental impacts linked to people's health (noise and emissions)	Qualitative
Incorporation of the perspective that PLS should be a driving force for change in the environmental management of the territory, since they are conceived as sustainable infrastructures: – Environmentally certified by international organizations – Efficient use of resources and prevention of pollution – That take into account the conservation of biodiversity and the sustainable management of living natural resources	Qualitative

Table 1. Identification and classification of social benefits of the project

Quantitative social costs of the project include expansion, major maintenance investments and operational costs.

Benefit Description	Type
Investment costs (Capex): costs related to airport expansion and development: – Expansion CapEx – Major maintenance and replacement CapEx	**Quantitative**
Operational costs (Opex): those costs related to the operation and minor maintenance of the airport. Among them, the following costs are identified: – staff – maintenance – supplies – insurance – professional services and – other costs	**Quantitative**

Table 2. Identification and classification of social costs of the project

The results of the cost-benefit analysis indicate a higher NPV under the Redevelopment Project execution modality with a higher BCR.

Inputs (MUSD)	Redevelopment Project	No project
Social Discount Rate (SDR)	**15.0%**	
Calculation period	**2023-2052**	
Total cumulative investment	**362.9**	**82.5**
Total accumulated social benefits	**33,748.5**	**30,257.0**
Cumulative social cost	**911.6**	**560.5**

Table 3. Cost-Benefit Analysis Components

Cost-Benefit Analysis	Unit	Values '23-52
Capex + Opex NPV	MUSD	184.3
Revenues + Social benefits NPV	MUSD	423.7
NPV	MUSD	**239.3**
NPSV	MUSD	**204.9**
Benefit-Cost Ratio (BCR)	x	**2.3**
Social Benefit-Cost Ratio (SBCR)	x	**2.1**

Table 4. Cost-Benefit Analysis Results

The result of the cost-benefit analysis of the project yields a **SBCR of 2.1, showing the convenience of executing the project** under the PPP modality based on the defined structure.

2.4. Sensitivity analysis

2.4.1. Sensitivity on Model Inputs

A high-level sensitivity analysis was conducted on the economic model inputs, to test in broad terms the impact of a given percentage changes in such inputs on the Business Plan.

This test was carried out on capital costs, operating costs, all (monetised) benefits and a joint sensitivity on a combination of all three (though at lower levels of change).

Monetised social and economic benefits are based on other evidence that may be prone to over-estimation. For this reason, monetised benefits have been 'sensitised'.

The results show that, under all the sensitivities conducted, the preferred option holds, even when the costs and benefits of the next best option are unchanged.

2.5. Conclusion

The quantitative CBA confirmed the alternative of the Redevelopment project is beneficial for the society and economy of Turks & Caicos Islands whose ideal scheme for funding and financing will be addressed based on the VfM analysis. The ratio of benefits to costs (being the sum of construction costs and net operating costs) emerged at 2.1.

This ratio is to be complemented by value for money exercise to select the benefits associated to the private financing of the initiative.

Having tested this option for non-financial benefits and risks, this option remains the preferred option.

An additional Cost-Benefit analysis and Value for Money exercise will be carried out as part of the Final Business Case to be developed by the private party once the Negotiation Phase is initiated and prior to the signature of the contract, which will be subject to the positive outcomes of the Final Business Case.

2.6. Value for Money (VfM)

In accordance with guidance, a detailed value for money exercise has been developed to the test the appropriateness of private finance vs. self-funding of the initiative.

The quantitative test for VfM is determined through a comparison of the PPP against the Public Sector Comparator (PSC) using the reference Public Sector Comparator (PSC) which allows to evaluate the difference between carrying out the project under a PPP versus a traditional public sector project.

The PSC is made up of nine (9) elements: four (4) related to the cost of the Public Reference Project (PRP) and five (5) related to the PPP Project.

A. **Public Reference Project (PRP) -** As per described in section 2.1.6 as funding Option #1 - Publicly funded and financed:

   1. **Base Cost of the Public Reference Project (BCRP):** is the base cost of the project in present value considering the reference discount rate. To do this, the costs of each stage (design, construction, operation, and maintenance) are calculated and, where appropriate, the social cost of the public waiting to provide the infrastructure through a traditional contracting scheme versus provision through a PPP is added. **There is a single reference project, valid for both models, given that the proposed project reflects the real needs of the airport and the needs to meet future demand without restrictions.**

   2. **Revenues of Third Parties (RTP):** they are a deduction applied to the Base Cost that incorporates the direct charge to users for the provision of the service. **The public sector typically has a lower efficiency than the private sector for the economic exploitation of airports as a result of the greater specialization and objectives of traffic development and profitability set by the private operator.**

   3. **Cost of Retainable Risk (CRR):** the retainable risk corresponds to the value associated with the risk of activities whose management is the responsibility of the public sector, calculated in present value.

   4. **Cost of Transferable Risk (CTR):** the transferable risk corresponds to the value associated with the risk of activities whose management is the responsibility of the Concessionaire investor, calculated in present value.

B. **Public Private Partnership (PPP) –** As per described in section 2.1.6 as funding Option #3 - Privately funded and financed (Concession based PPP):

   1. **The Retained Risk (CRR):** calculated in the same way as the Retainable Risk in the Public Reference Project.

   2. **PPP Management Administration Costs (AdmC):** correspond to PPP Contract management costs incurred by the public sector.

   3. **(Not considered for this PPP project) Government payments during construction (GP):** would correspond, where appropriate, to payments to the Concessionaire in the construction phase. Due to the type of investment of the project (financeable by the private sector within a self-sustaining project), they are not considered for this PPP project.

   4. **(Not considered for this PPP project since it is a self-sustaining project) Availability Payments to Concessionaire (AP):** it would correspond, where appropriate, to the payments to the Concessionaire in the operation phase by the grantor. Again, these are not contemplated as it is a self-sustaining project.

   5. **Government Revenues differential (GRD):** would be the charges received by the State for developing the project through a PPP, such as the collection of a Concession Fee by the State or the payment of a property tax to the municipality.

Value for Money is computed as the cost or net income resulting from carrying out the project as a PPP vs. a traditional public works project.

Value for Money will be positive when the present value of the net income expected for the Government as a result of carrying out the project as a PPP exceeds that of the net income resulting from executing the project through traditional public works.

Value for Money will be positive when the cost of public provision adjusted for risk is higher than the cost of private provision adjusted for risk and efficiencies. In this case, value is created by delegating the development of the project to a private Concessionaire.

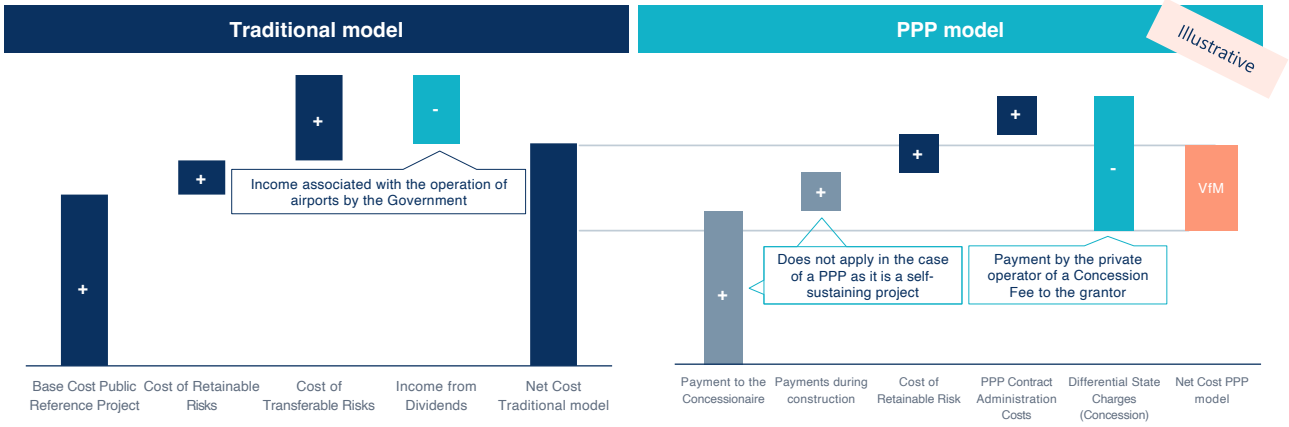


Figure 22. Methodology for the estimation of Value for Money

This project has been evaluated as the alternative that contributes with a lesser net cost for the Government (instead of net income), although they are totally equivalent approximations. The analytical formulation for calculating Value for Money allows obtaining the difference between net costs in present value for the two modalities (traditional public works vs PPP).

$$VfM = \sum_{t=0}^{n} \frac{(BCRP_t + CTR_t + CRR_t - RTP_t)}{(1+r)^t} - \sum_{t=0}^{n} \frac{(AP_t + GP_t + CRR_t + AdmC_t - GRD_t)}{(1+r)^t}$$

VfM: Value for Money generated by the project (net cost differential of each of the modalities)

GRD_t: Government Revenues differential obtained in the period (concession, taxes, taxes and supervision)

AP_t: Payments for Availability to the Concessionaire in the period (not applicable)

GP_t: Public Sector Payments in the Construction Stage (not applicable)

$AdmC$: Transaction/Administration cost of the PPP contract in the period

RTP_t: Revenue from Third Parties generated in the period

$BCRP_t$: Base Cost of the Reference Project (PRP) in the period

CRR_t: Cost of Retainable Risks in the period

CTR_t: Cost of Transferable Risks in the period

The calculation of the VfM starts from the premise of budget availability for the execution of the project by the Government. The lack of resources on the part of the grantor or the budgetary capacity of the State to undertake the investments required to guarantee operational safety and meet future demand are one of the reasons that merit the implementation of the project through PPPs. The budgetary capacity of the Government, as well as the operation under the PPP modality of the airports in the last 20 years should be elements to consider when evaluating the convenience of carrying out the project as a PPP.

2.6.1. Capital cost and Indexation

Under the PPP model, the real capital expenditure (Capex) and operating expenditure (OpEx) figures have been used and are escalated at an annual inflation rate with the corresponding U.S. inflation (as per the Financial Model) to obtain a VFM model base year of 2021. An annual CapEx cost escalator consistent with the annual inflation rate is then assumed, aligned with the Financial Model.

The calculation of the present value of each one of the components is carried out using the risk-free discount rate of the country in real terms, which has been considered as the Debt Interest Rate for T&C of 6.85% (Risk Free Rate (US T-Bond 20Y) + Market Risk Premium x Beta Leveraged + Country Risk Premium).

2.6.2. Costs

The BCRP groups the costs of investment, operation, maintenance, public waiting and public financing; the RTP pools aero and non-aero revenues.

The Base Cost of the Project has been estimated taking as a reference the investment, operation and maintenance costs of the project estimated in the Business Plan (not including payments to public entities such as concession fees). The Present Value of the Base Cost of the Project is 487,533,596 USD.

In addition to the Base Cost of the Project, the cost of public waiting and the cost of public financing must be considered. Both costs have been estimated based on the following assumptions:

- **Public waiting:** it has been considered that if the project is not executed through a PPP and is executed through traditional contracting, the project would be delayed for two years. The cost of waiting has been estimated as the margin of the income and operating costs of the Project for 2023 and 2024.
- **Public financing**: it has been considered that the public sector would have budget restrictions that would not allow it to face the payment of all the works at the time of their execution, for which it would need to borrow. The cost of public financing has been established in relation to the cost of private financing proportionally to the quotient between the real public interest rate and the real interest rate of the private sector (that is, 5.35/6.85% = 78.10% Private Financing Cost).

These assumptions are considered reasonable when comparing actual outturn costs experienced on publicly procured projects, especially given the complexities of constructing, operating, and maintaining a modern airport facility.

2.6.3. Income

In the case of this project, it would correspond to the aeronautical income and commercial income of the airport.

Typically, the public operator (State/Government) is less efficient than the private operator in generating commercial income. Commercial incomes have been estimated for both cases, and the results indicate that the efficiency of a public operator would be ~95% that of a private operator.

Moreover, the fact that the PPP option would transfer the risk of third-party income to the contractor makes the PPP option favourable to the scheme promoter. These factors are considered alongside the final result of the VfM Model.

2.6.4. Risk assessment

The assignment of risks to the reference magnitudes of the project on which they have an impact allows for the economic evaluation of risks (Cost of Retainable Risks and Cost of Transferable Risks).

Based on the Risk Matrix prepared and the allocation of risks (retained, transferred, or shared), the quantification and monetary valuation of said risks is carried out.

For this monetary valuation, the following is required:

1. **Obtaining the values of the P5/P50/P95 percentiles for each of the risks** using statistical inference techniques (application of the Chi-square probability function), where P5 represents an "ideal" scenario for project execution, P50 represents the "natural" state of execution of the project and P95 a worst-case scenario with a high probability of occurrence.
2. **Obtaining the reference economic magnitudes of the project** on which the impacts of each of the risks will be applied according to where their impact occurs.
3. **Assignment of the appropriate magnitude of reference to each risk and calculation of the impact** for each of the parties (retainable risk vs. transferable risk).

Once these steps have been carried out, it is possible to obtain the application magnitudes that will feed the analytical formulation previously exposed and thus obtain the result of the project's Value for Money.

$$Risk\ value\ by\ percentile = RA\ x\ PVRC\ x\ IR\ x\ PO$$

RA: Risk Allocation weighting percentage (retained vs. transferred)

PVRC: present value of the reference cost applied to each risk

IR percentage of Impact Risk according to percentile

PO: probability of occurrence according to percentile

The reference magnitudes of the project are calculated using a discount rate of 6,85% as a conservative assumption and include:

1. Revenues equivalent to the 2-year construction period, which serves as the basis for assessing the impact of delays in the airport construction period.
2. The total cost of the initial investment, which is used to assess the impact on construction cost overruns.
3. The Total Income of the Project that is used to assess various risks such as the risk of demand or the lack of availability of airports.
4. The Total Expenses of the Project that serves to assess various risks such as the risk of demand or the lack of availability of airports.
5. The Total Financial Expenses of the Project that serves to assess the risk of an increase in interest rates or the financial costs of the project.
6. The Gross Margin of the Project that serves to assess various risks such as the early expiration of the concession.
7. The Concession Fee that serves to assess the risk derived from possible scenarios of insolvency or economic damage.
8. Flow of the Project in the middle of the concession that serves to assess the risk derived from the early termination of the contract.

As a result of the Risk Allocation, some of the Risk will remain totally or partially under the Public Sector, with the rest being totally transferred to the Private Partner under the PPP model:

Shared Risk Retained Risk

Type of Risk	Risks assigned to the State		Assignment
Design	Design Defects	Flaws in the technical specifications	
		Wrong supervision and Project control	
	Delay in the completion of the design	Modifications to the approved Project	
		Delay in the approval of the Project	
Construction	Increase in construction costs	Specific Government Action	
		Geological Events	
	Delays in construction	Lack of licenses, permits and authorizations	
		Archaeological remains	
		Delay in approval of works	
		Delay in land expropriations	
		Delay in the constitution of OLS	
	Non-compliance with the technical specs	Errors in the supervision and control of works	
		Modifications to the design requested by the Government	
		Request for additional works by the Government	
	Non-compliance with the works	For reasons attributable to the Grantor	
Operation & Maintenance	Increase in operating costs	Costs rise due to changes in applicable laws	
	Non-compliance with service levels	Failures in the availability of the public service attributable to the Grantor	
		Grantor changes service levels	
		Changes in service level requirements	
Aeronautical & non-Aeronautical Revenues	Insufficient Tariffs long-term	Aeronautical revenues	
	Changes in demand	Reduction in the quantity demanded due to competition generated by another state initiative	
	Counterpart	New government representative tries to annul contract	
	Exchange	Restrictions on convertibility or transfer	
Force Majeure	Force Majeure	Natural: earthquake, floods, frost, etc…	
Environmental & Social	Environmental incidents	Pre-existing environmental liability	
		Find unforeseen archaeological remains	
	Environmental costs	Major mitigation activities	
Early termination of the contract	By the Grantor	The Grantor terminates the contract early	

Figure 23. Public Sector Retained and Shared Risks

2.6.5. Tax adjustment

The applicable Corporate Tax Rate in Turks & Caicos is 0%.

2.6.6. VfM

The VfM Model shows the extent to which, based on the resulting Net Present Value at applicable Discount rates (5.35% for the Government and 6.85% for the Private Party in the PPP case).

The Project through Traditional Public Works would generate negative net costs (earn money) for the Govt. if the materialization of the risks occurred in P5. Only if the materialization of the risks occurred in its most favourable range, the Government would earn money with the project, since the income from third sources exceeds the costs of the project and the values of the transferable and retainable risks (without going into the assessment that the Government could earn more with the concession fees if it were carried out through a PPP).

Under the PPP model alternative, the greater the amount of risk transferred from the Public Sector to the Private Investor (or higher probability of occurrence), the greater the Value for Money of the Project.

The results obtained show that VfM is generated with the PPP project, so its development through PPP is appropriate, as supported by the sensitivity analysis carried out, also generating income for the Government.

	Percentile 5	Percentile 50	Percentile 95
Total Adjusted Cost of the Reference Project	-117,144,779 USD	300,614,551 USD	1,477,820,419 USD
PPP Adjusted Project Cost	8,311,653 USD	109,558,310 USD	402,977,417 USD
Value for Money (VfM)	-125,456,433 USD	191,056,241 USD	1,074,843,002 USD

Figure 24. Value for Money results

This result considers the favourable effects of transferring the set risk of third-party income to the private party under the PPP option.

2.6.7. Sensitivity on PPP VfM

To test the robustness of our VfM analysis, a sensitivity analysis has been carried out on the resulting NPV of the VfM exercise as follows:

Variable	Variation	VfM-P5 ('000 USD)	VfM - P50 ('000 USD)	VfM - P95 ('000 USD)
Government differential charges (GDC)	Increase 10%	-122.418	**194.094**	1.077.881
	Decrease 10%	-128.495	**188.018**	1.071.805
Capex (Capital Investment)	Increase 10%	-92.675	**230.946**	1.136.067
	Decrease 10%	-158.237	**151.167**	1.013.619
Opex (Operational Expenditure)	Increase 10%	-101.535	**213.793**	1.094.439
	Decrease 10%	-149.378	**168.319**	1.055.247
Third Party incomes	Increase 10%	-215.377	**101.136**	984.922
	Decrease 10%	-35.536	**280.977**	1.164.764
Transferred Risks	Increase 10%	-115.057	**233.107**	1.205.272
	Decrease 10%	-135.856	**149.005**	944.414
Discount Rate	Increase 100 pbs	-101.489	**183.117**	979.018
	Decrease 100 pbs	-155.787	**198.760**	1.187.228
Base VfM Value		**-125.456**	**191.056**	**1.074.843**

Table 5. Value for Money Sensitivity Analysis

The outcomes of this sensitivity analysis support the decision of carrying out the PPP model under a probability of occurrence of the risks of 50% in the most likely scenario, but also on the most critical case with high probability for the materialization of risks.

2.7. Review of Environmental and Social Impact Assessment, technical and other studies

At this stage, the project team deemed it necessary to conduct a thorough Environmental and Social Impact Due Diligence, to establish the risks and impacts for the redevelopment project. For this task, ALG worked with Penelope Latorre, an environmental expert located in the United Kingdom with global experience in Environmental and Social Due Diligence for the airport sector and specific experience in the Caribbean.

The objective of this E&S Assessment was to assess any latent, direct and indirect environmental and social liabilities, which may be of material consideration to any proposed bidder; identify any gaps in information; and ways to close such gaps in order to support the Project development in line with IFC Performance Standards (PS) and international good practice.

Providenciales International Airport is the primary gateway to the Turks and Caicos Islands (TCI), besides the Grand Turk Cruise Terminal. It serves the Providenciales Island, the most inhabited Island in TCI. It is in the centre of this island, at 5 metres elevation above sea level. The Airport's property boundary encompasses 278.85 hectares (689.06 acres), including the airfield, terminal, landside and support facilities. Security fencing is provided around the perimeter of the property. In 2021, the airport handled over 400,000 stayover arrivals, of which 92% were US citizens. International airlines serving the airport include American Airlines, Air Canada, British Airways, Delta, United, WestJet, and JetBlue. It operates from 6am to 8pm, local time.

There are residential settlements to the northeast and southeast of the airport, industrial developments to the south, a forested area to the northwest, and, to the west/south-west of the airport, the Chalk Sound National Park is located with proximity.

Based on our assessment, some potentially material environmental and social aspects have been identified. It is highlighted that, at the time of writing, there are still information gaps for which documentation is still awaited. Notwithstanding this, many of the issues identified have been considered as part of the proposed Project, with a view to mitigating them. These issues include:

- Surface and wastewater management
- Waste management
- Climate change (transitional and physical risks)
- Contaminated land
- Biodiversity

Costs for addressing and mitigating some of these aspects have been included within the business plan, while other mitigating factors have been included in the proposed PPP agreement.

The materiality of other E&S issues could not be established on the basis of existing information. These include:

- H&S matters
- HR (legal information pending)
- Emergency preparedness

The E&S Assessment comprised an independent evaluation of E&S aspects of the Project with consideration of the applicable regulatory and IFC applicable standards. The Assessment takes into consideration the existing operations at Provo Airport and elements relevant to future operations as defined by the Project.

The E&S Assessment comprised a site visit which was conducted between the 23rd May and the 26th May 2022 by Penelope Latorre (E&S Lead). The site visit comprised:

• A walkover of the terminal and landside areas (including car parks).

• A cursory visual inspection of the airside areas of the airport, which comprise:

  o The three fuel farms (two of them only externally)

- o The fire station
- o The ATC
- o The wastewater treatment facility
- o The FBO facilities
- o Waste storage areas (only selected areas)
- o An overview of landscaped areas across the airport (in particular, along the runway and taxiways).

In addition, during the period above, meetings were held with the following relevant entities:

External Stakeholders	Internal Stakeholders
Rubis Regional Manager, responsible for the operation of one Fuel Farm	TCIAA CEO and deputy CEOs
Ports Authority	Board Infrastructure Committee
Environmental Health	Project Team
Representatives of FBOs	Director of Contracts & Procurement
Ministry of Immigration and Border Services	Director of HR
Ministry of Infrastructure, Physical Planning and Public Works	Director of Meteorology
Ministry of Finance, Trade, and Investment	Executive Terminal Manager
Airline Representatives	Safety Director
Airport concessions representatives	Director of Operations
Ministry of Tourism and Tourism Association representatives	
Ministry of Environmental and Coastal resources	

Table 6. Stakeholders' engagement for Environmental and Social Assessment

Detailed impact assessment is included in Annex 1.3. These impacts were submitted to the project team prior to the development of this Intermediate Business Case, and were used in establishing the Preferred Option, estimating environmental costs and mitigation measures.

All technical studies have been finalized by ALG and are included in Annex 1 in their final version.

3. Commercial Case

The purpose of the commercial case is to identify the commercial options available for the preferred option selected: PPP option for the Comprehensive Redevelopment Project.

In this case, the commercial approach for the preferred option and allocated risk is developed and a summary of the commercial approach for the preferred option, and description of why is has been chosen is given. A summary of how the risks of the preferred option will be allocated between project parties and how this allocation maximises value for money has also been developed. Both the Value for Money assessment and the Risk Assessment are included in the Transaction Structure Report which forms part of the Due Diligence Report prepared by ALG, found at Annex 1.7.

This case also provides as summary of the project specification and Heads of Terms, and the underlying principles, along with a statement as to why TCIG and the TCIAA believe that a PPP contract will maximise the value for money which can be achieved.

A summary of the market engagement process, conclusions reached and actions undertaken as a result; a statement as the level of confidence that it will be possible to run a tender with a good level of competitive tension also forms part of this case. Following an on-site mission conducted in July 2022 by ALG, which included a stakeholder session to present the project and the opportunity it was concluded that there was overwhelming public interest in the redevelopment of the Howard Hamilton International Airport and for this redevelopment to occur via a PPP option. As a result, an Information Memorandum has been delivered for use in public marketing once approval is given to proceed with a procurement (see Annex 7). Market sounding will further be conducted during the pre-qualification stage and before a Final Business Case is submitted by the Private Partner.

3.1. Commercial approach for the Preferred Option and Risk allocation

3.1.1. Commercial strategy

The commercial strategy aims at delivering a successful structuring process for the PPP option under a DBFOM model standing over three main strategic principles:

1. **Clear and reliable information:** The Information related to the project needs to be clear and reliable for all parties involved, to ensure mutual trust between working groups (Grantor, different advisors, investors, etc.). The Grantor should provide the best information available to both the structuring advisors and the investor at a later stage.
2. **Reasonable deal for both parties:** The deal needs to be beneficial for both the Public and the Private parties Project solution need to be aligned with the real financial situation of the infrastructure. Both parties expect the project to have financial return and reasonable risks. The structuring process needs to identify the key points that make this possible.
3. **Excellent Management of Public Relations:** All Information going public needs to be fully aligned with all stakeholders' interest Publications need to be rigorous and accurate, to ensure everyone has understandable information Confusing and contradictory messages only generate mistrust and preoccupations.

The successful implementation of the airport redevelopment project is subject to the successful execution of the following activities:

- Design of the infrastructure
- Construction/Build of the infrastructure
- Financing of the infrastructure
- Operation of the infrastructure
- Maintenance of the infrastructure

The procurement of these activities is subject to various alternatives regarding commercial arrangements:

1. **DB + OM:** separate contracts: one for design and construction and a dedicated contract for the operation and maintenance of the newly built infrastructure.

   Advantages:

   - Procurement carried out by the Public Sector under its specifications and total control.
   - Operation and maintenance under the same entity, critical for the entire asset life cycle.

   Disadvantages:

   - Financial and Long-Term risks remain under the public sector.
   - The O&M contract generates additional costs to the Grantor.

2. **DBOM:** one single entity is accountable for the design, build, operation and maintenance; however, financing is provided by the Public Sector.

   Advantages:

   - This structure comprises the entire asset life and scope, as the concessionaire is responsible for all aspects of the project for the duration of the contract.
   - The structure allows for the execution of the complete infrastructure development
   - Finance costs can be potentially lowered

   Disadvantages:

   - Requires Public Sector capital funding, thus generating additional fiscal pressure and an opportunity cost regarding the use of these funds.

3. **DBFM + O:** one contractor is responsible for the delivery and financing of the infrastructure development projects with a second entity responsible for the operation, commonly under short-term concessions.

   Advantages:

   - Allows for the selection of specialist entities devoted to separate activities.
   - Does not impose additional fiscal tension on the Public Sector.
   - Whole life cycle development and maintenance remain under the same Private Entity.

   Disadvantages:

   - The level of complexity of this structure due to the interaction between two entities requires from additional resources and capabilities from the Public Sector
   - Potential conflict of interest between involved parties looking at separate interests: on one side, responsible for the construction would be interested in significantly high investments, resulting on potential cost over-runs far from the operational needs.

4. **DBFOM:** the selected Private Party is responsible for the end-to-end delivery of the previous activities. A single concessionaire would be appointed as the unique responsible for all aspects of the project. The concessionaire would be entitled to the collection of revenues included within the perimeter of the concession and would pay the

Grantor a percentage of total revenues (part of their financial offer during the bidding process) in concept of "Concession Fee".

Advantages:

- Risk transfer to the Private Partner which is a critical premise for undertaking a project of this size with no previous experience on the Public Sector.
- No Public Sector capital injection apart from on-going projects out of the perimeter of the concession
- Opportunity cost associated to the use of Public Funding on a financially self-sustainable project instead of using these resources on social infrastructure or other critical aspects for the country such as climate resilience, etc.
- Long-term vision alignment with the Private Party, ensuring alignment with the long-term strategic National goals for tourism and economic development.
- Concession Fee mechanism that ensures a continuous revenue source for the Grantor, which can then be re-distributed on the development of the overall aviation sector of the country and generate induced benefits.

Disadvantages:

- Demand risk fully transferred with no guarantees on return for the Private Sector may seem unattractive. However, the existing consolidated demand base, certainty over the regulatory framework with respect to airport fees and charges and the concession fee based on a revenue share mechanism ensures that the Private Partner has sufficient levers to activate value for their shareholders under current conditions.
- The cost of debt for the private sector may be higher than the issuance of Government Bonds, however, the Financial Model developed has proven that the resulting returns on Shareholders' Equity are attractive enough.

Accordingly, **the preferred procurement route is a PPP contract under a DBFOM model for the following reasons**:

1. **Market appetite:** DBFOM contractual models for airport development are broadly understood and validated by the market, providing certainty over the basic components of the PPP.
2. **Achievement of demand-related forecasts:** the introduction of a specialized international airport operator with proven experience on route and infrastructure development will serve as catalyser for the materialization of the estimated forecasts, achieving not only airport development goals but also nation-wide objectives related to tourism and PIB contribution.
3. **Construction risk:** transfer of the design, construction and procurement risks to an experienced international partner will allow for the timely execution of the foreseen development projects, ensuring that a best-in-class infrastructure, compliant with best practices and international standards is delivered.
4. **Risk allocation and integration:** the concessionaire will be required to deal with allocated risks. Under the PPP DBFOM structure, the Public Sector retains only limited risks whose materialization is less likely, and impact limited to very specific circumstances.
5. **Value for Money:** a detailed quantitative and qualitative Value for Money assessment has been carried out, proving that is the alternative offering best value under different sensitivity scenarios and probability of materialization of the various risks.

3.1.2. Risk allocation

A contract risk allocation matrix for the preferred option has been developed as showcased in the Economic Case for the Value for Money analysis. Detailed allocation of these risks is provided below:

Risk Name	Risk Assignment	Weigth Public Party	Weigth Private Party
1.1.1 Flaws in the technical specifications required by the Government	Retained	100%	0%
1.1.2 Flaws in the design offered by the private	Transferred	0%	100%
1.1.3 Wrong supervision and Project control	Shared	50%	50%
1.2.1 Modifications to the approved Project	Shared	50%	50%
1.2.2 Variations in security specifications	Transferred	0%	100%
1.2.2 Delay in the approval of the Project	Retained	100%	0%
1.3.1 Increase in the costs of elaboration of the Project	Transferred	0%	100%
2.1.1 Variation in investment costs due to a greater number of works not foreseen by the Private	Transferred	0%	100%
2.1.2 Increase in investment costs due to higher prices of supplies and equipment	Transferred	0%	100%
2.1.3 Changes in the General Legal Framework that affect the construction process	Transferred	0%	100%
2.1.4 Specific Government Action Affecting the Concession	Retained	100%	0%
2.1.5 Geological Events	Retained	100%	0%
2.1.6 Errors and defects in construction	Transferred	0%	100%
2.1.7 Hidden defects that are generated before delivery	Transferred	0%	100%
2.1.8 Damages	Transferred	0%	100%
2.1.9 Adverse changes in the exchange rate	Transferred	0%	100%
2.2.1 Lack of licenses, permits and authorizations that delay the start of the work	Shared	50%	50%
2.2.2 Environmental: Lack of licenses, permits and authorizations	Transferred	0%	100%
2.2.3 Archaeological remains. Delay in necessary Certifications	Retained	100%	0%
2.2.4 Construction takes longer than anticipated by the Private	Transferred	0%	100%
2.2.5 Deficiency in the supply of materials and equipment	Transferred	0%	100%
2.2.6 Work accidents	Transferred	0%	100%
2.2.7 Delay in approval of works	Shared	50%	50%
2.2.8 Delay in land expropriations	Shared	0%	0%
2.2.9 Delay in the constitution of Obstacle Limitation Surfaces	Retained	100%	0%
2.3.1 Errors in the supervision and control of works	Retained	100%	0%
2.3.2 Defects in the execution of the work	Transferred	0%	100%
2.3.3 Modifications to the design requested by the Government	Retained	100%	0%
2.3.4 Modifications to the design requested by the Private	Transferred	0%	100%
2.3.5 Request for additional works by the Government	Retained	100%	0%
2.3.6 Request for additional works by the Private	Transferred	0%	100%
2.4.1 Concessionaire abandons the project	Transferred	0%	100%
2.4.2 Dealer falls into insolvency	Transferred	0%	100%
2.4.3 Infrastructure does not meet the requirements to start the operation	Transferred	0%	100%
2.4.4 For reasons attributable to the Concessionaire	Transferred	0%	100%
2.4.5 For reasons attributable to the Grantor	Retained	100%	0%
3.1.1 Changes caused by initiative of the Private	Transferred	0%	100%
3.1.2 Inefficiencies in operation caused by design	Transferred	0%	100%
3.1.3 Increase in the prices of supplies and equipment	Transferred	0%	100%
3.1.4 Increase in insurance premiums.	Transferred	0%	100%
3.1.5 Increased costs due to operating problems	Transferred	0%	100%
3.1.6 Costs rise due to changes in applicable laws	Shared	50%	50%
3.2.1 Maintenance over the life of the asset costs more than budgeted	Transferred	0%	100%
3.3.1 Failures in the availability of the public service attributable to the Concessionaire	Transferred	0%	100%
3.3.2 Failures in the availability of the public service attributable to the Grantor	Retained	100%	0%
3.3.3 Grantor changes service levels	Retained	100%	0%
3.3.4 Changes in service level requirements	Retained	100%	0%
3.4.1 Asset Status	Transferred	0%	100%
3.5.1 Direct, indirect and other economic damages	Transferred	0%	100%

Risk Name	Risk Assignment	Weigth Public Party	Weigth Private Party
4.1.1 Non-aeronautical revenues	Transferred	0%	100%
4.1.2 Aeronautical revenues	Retained	100%	0%
4.1.3 Collection risk: Payment evasion by users	Transferred	0%	100%
4.1.4 Refusal to collect fees	Transferred	0%	100%
4.2.1 Reduction in quantity demanded	Transferred	0%	100%
4.2.2 Reduction in the quantity demanded due to competition generated by another state initiative	Retained	100%	0%
4.3.1 Breach of service levels by the Private	Transferred	0%	100%
4.3.3 Outdated or poor technology	Transferred	0%	100%
4.4.2 New government representative tries to annul contract	Retained	100%	0%
4.4.3 Concessionaire is found guilty of corrupt practices	Transferred	0%	100%
4.4.4 Impairment of shareholder credit exposure	Transferred	0%	100%
4.5.1 Currency devaluation, currency fluctuations	Transferred	0%	100%
4.5.2 Restrictions on convertibility or transfer	Shared	50%	50%
5.1.1 Difficulty of the Private to meet the requirements requested by the financier	Transferred	0%	100%
5.2.1 Difficulty of the Private to meet the requirements requested by the financier	Transferred	0%	100%
5.2.2 Exchange rate variation	Transferred	0%	100%
6.1.1 Natural: earthquake, floods, frost, etc…	Shared	50%	50%
6.1.2 Labor disputes, strikes, unions	Transferred	0%	100%
6.1.3 Social conflicts that directly affect the project	Transferred	0%	100%
7.1.1 Failure to deliver technical studies	Transferred	0%	100%
7.1.2 Deficiency in the content of technical studies	Transferred	0%	100%
7.1.3 Budget increase for mitigation activities	Transferred	0%	100%
7.2.1 Pre-existing environmental liability	Retained	100%	0%
7.2.2 Operation failure	Transferred	0%	100%
7.2.3 Find unforeseen archaeological remains	Retained	100%	0%
7.4.1 Major mitigation activities	Shared	50%	50%
7.5.1 Non-compliance with environmental standards and the provisions of the EIA	Transferred	0%	100%
8.1.1 The Grantor terminates the contract early	Retained	100%	0%
8.2.1 The Private terminates the contract early	Transferred	0%	100%

Table 7. Risk Allocation Matrix

3.2. Draft Project specification and Head of Terms

The base case of the transaction structuring is based on the main operational and financial assumptions of the project:

General assumptions	**Concession period**	Start of concession on **01/01/2024** with a period of **30 years**
	Investment program	**Based on infrastructure requirements** assuming **current operation (VFR)**
	Traffic growth scenario	**Base case**
	Others	**New PBB charge of 80USD per use** (from 2029) **New DOM charge for DEP non-national DOM pax** – 5 USD (from 2026)
Financing	**Gearing**	**70% Debt / 30% Equity** for Expansion CapEx
	Interest rate on debt	**6.85%** nominal (T-Bonds 20Y + Baa1 Country Risk Premium + Private Spread)
	Debt tenor	**15 years**
	Debt Service Coverage Ratio (DSCR)	**1.35x**
	Corporate tax rate	**0.00%**
Other assumptions	**Fees and charges**	Updated based on **IPC USD** (every three years)
	Inflation	Based on IPC USA (long-term inflation 2.00%)
	Equity IRR target	**Equal to Cost of Equity (Ke)** – Risk Free Rate (US T-Bond 20Y) + Market Risk Premium x Beta Leveraged + Country Risk Premium
Valuation	**Concession fee to TCIAA**	**Result of Ke = IRR (minimum of 30% over gross rvenues)**

Figure 25. Head of Terms of the PPP concession contract

3.2.1. Payment Mechanism – Concession fee to TCIAA

The proposed economic valuation and selection criteria is the Concession fee to be paid by the Concessionaire to the TCIAA. The reference value has been established as a minimum percentage over gross revenues targeting IRR of Shareholders' Equity Cash Flow equal to Ke (reference cost of equity for the Private Partner), to be surpassed by potential bidders as part of their economic offer.

Since the concession fee is the most convenient decision variable for the evaluation of bidders, depending on the return expected by the bidders, a detailed sensitivity analysis has been carried out to address the target window of likely offers expected based on the Private sector Ke:

Concession Period vs. Discount rate Private Investor (Cost of Equity, Ke)	19.02%	17.02%	15.02%	13.02%	11.02%
20 years	16.8%	22.9%	28.6%	34.0%	38.9%
25 years	19.7%	26.1%	32.2%	37.6%	42.8%
30 years	20.7%	27.4%	33.6%	39.4%	44.9%

Figure 26. Concession Fee sensitivity to Private Investor Cost of Equity (Ke)

3.2.2. Contractual Considerations

Procurement process

The Project will be awarded in conformity with the international best practices where available and local procurement laws where applicable, which define a general institutional framework and provide for various procedural requirements, approvals and consultations.

The local procurement is currently considering the development of a project specific legislation. This is comprised of the disapplication/amendment of certain requirements of the Public Procurement Ordinance (PPO) and other legislative amendments (e.g. certain changes to the Airports Authority Ordinance) in relation to the procurement of the Project (Project Specific Legislation).

The Project Specific Legislation is intended to come into effect after: (i) the Public Finance Management (Providenciales Airport Expansion Project) Regulations 2022; and (ii) the Financial Instructions given under the PPO in relation to the Project. The regulations and financial instructions are currently in draft form and when enacted will provide for the disapplication of certain requirements of the PPO and Public Finance Management Regulations to enable the pre-qualification phase of the Project to commence.

The Project Specific Legislation will provide for the disapplication/amendment of certain requirements of the PPO and other legislation in relation to the procurement of the Project generally (not just the pre-qualification phase). This is necessary as otherwise certain provisions of the PPO would be breached if the procurement was to proceed without the relevant requirements being disapplied or amended. In the case of other legislation, such as the Airports Authority Ordinance, amendments to this legislation are required to facilitate the procurement of the Project and its structure.

Identification of the contracting authority

At this stage, it is contemplated that the agreement for the Project should be entered into between the private partner, on the one hand, and the Turks & Caicos Islands Government and the TCIAA, on the other hand.

Grant of Rights to the Concessionaire

At this stage, it is contemplated that The Owner will grant to the Concessionaire the exclusive right

- to carry on the Airport Business
- to administer, manage, improve and maintain the Airport, both airside and landside
- to carry out the mandatory works programme and
- collect the regulated airport charges, and non-aeronautical revenues, all in accordance with the terms and conditions of the contract

Reserved activities

At this stage, Concessionaire should provide free of charge:

- access and space to the relevant Government Entities for the purpose of performing customs control, immigration control and quarantine at the Airport
- access for air traffic control services
- access and space to the meteorological service including space for measuring equipment on the Site

Works

At this stage, Concessionaire should

- complete the mandatory works program within the first 4 years of the concession in line with the timetable set in the contract
- delays in completion of works could trigger liquidated damages

- any additional works triggered by shortfall in level of services after a set period of time, despite payment of penalties for non-performance

Employee Transfer

At this stage:

- In the Interim period, between commercial and financial close, Owner to not make any material adjustment to employee contracts
- All employees are hired as of execution date by the Concessionaire on same existing terms
- Employment years roll over to the Concessionaire
- Retrenchment in line with local laws

Risk Transferred

Contract will provided the risk transfer according to the risk matrix defined in the Value for Money

Early Termination

At this stage:

- Lenders to receive recovery of their financing under any scenario
- In case of Force Majeure event, Concessionaire to recover equity for the part not covered by insurance payments
- In case of TCIAA default or Change in Law, Concessionaire to recover equity and loss of profit
- In case of Concessionaire default, loss of equity by the Concessionaire

Dispute Resolution

At this stage:

- Contract to provide mechanism for dispute resolution
- All disputes not otherwise settled in accordance with the proposed mechanism will be submitted to international arbitration

Hand back Provisions

At this stage:

- Concessionaire to post handback security in line with contract requirements
- Assets to be returned to TCIAA with a minimum of 5 years of residual life

3.3. Market engagement

3.3.1. Market Engagement strategy

Market engagement will be carried out according to the Public Procurement Ordinance following the procedures established for a restricted procedure for a prequalified tender.

The procedure shall be the subject of an advertisement in the local media and on the government website. The advertisement must include details on how the shortlist for receiving an invitation to tender will be decided. A minimum of three (3) suppliers shall be invited to tender. If there are not enough persons meeting the pre-qualification then, provided that best value for money can still be obtained through that tendering exercise, it may be determined to, with the approval of the Procurement Board, invite a lesser number of persons to tender.

The market engagement will be carried out according to the Communications Plan to be developed by the Project Manager and will include the participation on

1. **Public and Industry Stakeholder Forums** were successful in providing the interested public all the necessary information about the project, receiving feedback, concerns, suggestions, in a live setting, responding to questions, and testing overall public sentiment and support for the project.
2. **Market Sounding and Road Show:** Contemplated as part of the marketing campaign to potential bidders

3.3.2. Market Sounding

Market sounding is an important part of any PPP process, as it helps to gauge the interest and appetite of potential investors and partners. Developing and including the appropriate materials, a market sounding exercise for an airport PPP can help to ensure that the project is well-designed, and that potential investors and partners are engaged and interested.

The main stages of the market sounding will include:

1. **Pre-Market Sounding Stage:** This stage involves defining the scope and objectives of the market sounding exercise. The content of this stage includes the development of the Project Information Memorandum. A preliminary version of the Project Information Memorandum has been drafted and can be found in Annex 7.
2. **Initial Outreach Stage:** In this stage, the Project Team will identify and reach out to potential investors and partners to gauge their interest in the project. The content will include dedicated electronic communications, public advertisement, and instructions for the reception of the Market Sounding Information Memorandum.
3. **Feedback Stage:** In this stage, the project team will engage with potential investors and partners to solicit feedback on the project's scope, structure, and financing plan. The means for evaluation of the appetite will include one-on-one meetings and/or bidders conference/s.
4. **Refinement Stage:** Based on the feedback received, the project team will refine the project scope, structure, financing plan and/or contractual terms if applicable.
5. **Final Outreach Stage:** The Project Team will reach out to potential investors and partners with the final/updated project information and ask for their final feedback and expressions of interest.

3.4. Procurement Plan and MDBs engagement

3.4.1. Procurement Strategy

The Public Procurement Ordinance provides for a general rule according to which procurement shall be conducted in a manner that (a) ensures appropriate competition, (b) maintains fairness, transparency, equality and integrity, and (c) ensures that the highest standards of probity are observed by officers involved in the procurement, award and management of government contracts. The principles of non-discrimination, equal treatment and transparency must be followed throughout the tender process.

As a DBFOM scheme, under which significant revenue risk will be borne by the concessionaire, the proposed contract is most properly classified as a PPP. The use of a negotiated form of procurement for PPPs is recommended. In view of these facts and the complexity of the project where some dialogue with bidders is necessary, a fixed contract procedure is considered with clear marking on negotiated clauses for the prospective bidders.

3.4.2. Procurement Process

The Procurement Process will be carried out according to the Public Procurement Ordinance and will be composed of the following elements:

1. **Pre-Procurement Procedure:** near to completion after approval is granted by the Secretary of State, the Governor and suitable appraised by the House of Assembly.
2. **Procurement Procedures:** the use of a restricted procedure is recommended following the formal specifications regarding advertisement, shortlisting criteria, and selection mechanisms.
3. **Advertisement of the procurement:** the procurement shall be the subject of an advertisement in the local media and on the government website. The advertisement must include details on how the shortlist for receiving an

invitation to tender will be decided. Minimum of three (3) suppliers shall be invited to tender. If there are not enough persons meeting the pre-qualification then, provided that best value for money can still be obtained through that tendering exercise, it may be determined to, with the approval of the Procurement Board, invite a lesser number of persons to tender.

4. **Pre-qualification:** criteria weighted and based on eligibility, including economic, social and environmental criteria, financial standing (financial statements and proof of ability to provide any guarantee or performance bond) and technical capacity to meet the specifications for the performance of the proposed contract.
5. **Invitation to tender:** including detailed specifications by the Public Procurement Ordinance.
6. **Post-tender negotiations:** may be prudent to contemplate post-tender negotiations in a constrained manner that does not encourage them.
7. **Awarding of contract:** With respect to private public partnership project, the Secretary to the Board must complete a Contract Award Notification and submit it to the Deputy Governor, who must submit it to Cabinet for the decision to award a contract in respect of the project.

The proposed procurement route requires modifications to existing legislation in order to be compliant. Even though this may pose a risk to the project, advances in this field have been carried out and the changes to the Public Procurement Ordinance highlighter as part of the Legal Due Diligence are close to be finalized. Detailed considerations regarding the Project Specific Legislation and changes to the Public Procurement Ordinance are detailed on Annexes 1.6, 6 and 12.

3.4.3. Multilateral Development Banks (MDBs) engagement

Engagement of MDBs is not foreseen for the project since it is considered financially feasible and sufficiently attractive for the Private Sector. However, should an y of the projects included in the scope of the development plan be subject to financing by MDBs, the collaboration between the Public and the Private sector for the materialization of these beneficial sources of funding is foreseen for the benefit of the concession. This process should be led by the Private Partner and the Public Partner could act as facilitator for the access to these funds with no associated obligations nor responsibilities.

4. Financial Case

The financial case is comprised of a business plan which contains a detailed analysis of revenue streams and operating costs. The assumptions and results are included in the **Business Plan Report** which forms part of the Due Diligence Report prepared by ALG, found at Annex 1.5. The Investment Plan is included in the Development Plan and Investment Programme Report found at Annex 1.2.

The financial case is further supported by a financial model based on the revenues included in the Business Plan Report, the operating costs and the Development & Investment Plan Report (investments). The main assumptions and results of the financial model are included in the Transaction Structure Report (Annex 1.7, 367 – 381), including the Risks Assessment, a standalone copy which is found at Annex 3.

The main assumptions and the results of the financial model confirm that the preferred option (PPP alternative with a concession model) is affordable. Risks to affordability, propositions as to how any gaps in affordability may be addressed are also set out in the Transaction Structure Report, including the detailed risks assessment.

Different financing options have been modelled, i.e., (1) self-funding, (2) the entrance of a private airport operator (PPP), and (3) joint venture with a private operator, and the preferred option is one where the TCIAA and TCIG are able to retain ownership of the asset while transferring the relevant risks to the Private Entity (i.e. design, construction delays, demand, operating cost, etc.). **This is best achieved using the PPP model.**

Different PPP models were also considered (i.e. DBFOM, DBFM, BOT, BLT) and it was determined that **the preferred model is the DBFOM concession model** which would allow for the main risks to be transferred to the private operator, while allowing the TCIG and TCIAA to retain ownership of the asset and the benefit of a quality enhanced product capable of satisfying the demand needs.

4.1. Business Plan Assumptions

The baseline of the financial case is the Business Plan, including traffic demand projections, aeronautical revenue forecast (based on applicable airport fees & charges), non-aeronautical revenue forecasts and operational expenditures. These activities will provide the financial outcomes from the operation of the airport infrastructure, which will then be complemented by the different financing sources to implement the established Investment Plan derived from the capacity requirements of the infrastructure based on international best practices.

The following sub-sections provide the main assumptions of the Business Plan and its resulting financial outcomes. Detailed analysis and outcomes of the Business Plan are included in Annex 1.5.

4.1.1. Traffic

Turks & Caicos ranked 17th in 2019 in terms of seat supply within the Caribbean region but registered high growth rates during the last decade (5.4% CAGR). The impact of COVID in the Caribbean seat supply was actually lower than in other regions as leisure traffic was more resilient than business traffic. After COVID, air traffic demand to/from the Caribbean region is expected to maintain the trend of moderate growth (forecast in the range of 2%-3.5%) according to main industry sources (Airbus, Boeing and ACI).

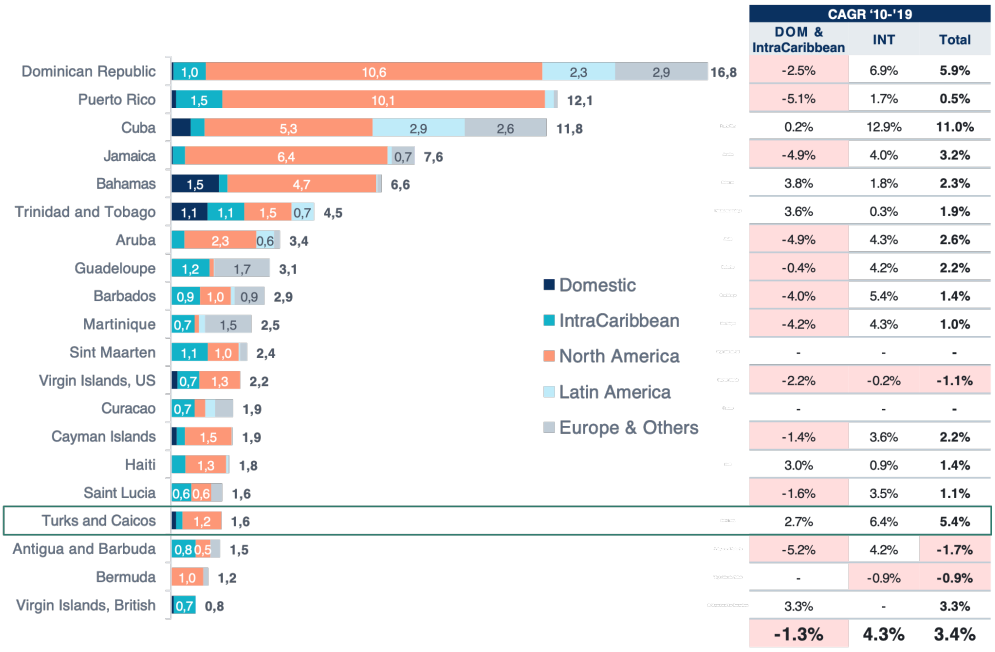


Figure 27. Caribbean region seat supply (Mseats 2019)

Amongst the Caribbean destinations, Turks & Caicos is positioned as a "niche market" for high-yield travellers (top country in terms of accommodation rates). Providenciales airport is the gateway to the country and registered a 5.8% CAGR during the last decade (pre-COVID). Post-pandemic recovery has been strong on the international segment (dominated by American carriers), surpassing 2019 traffic figures in 2022.

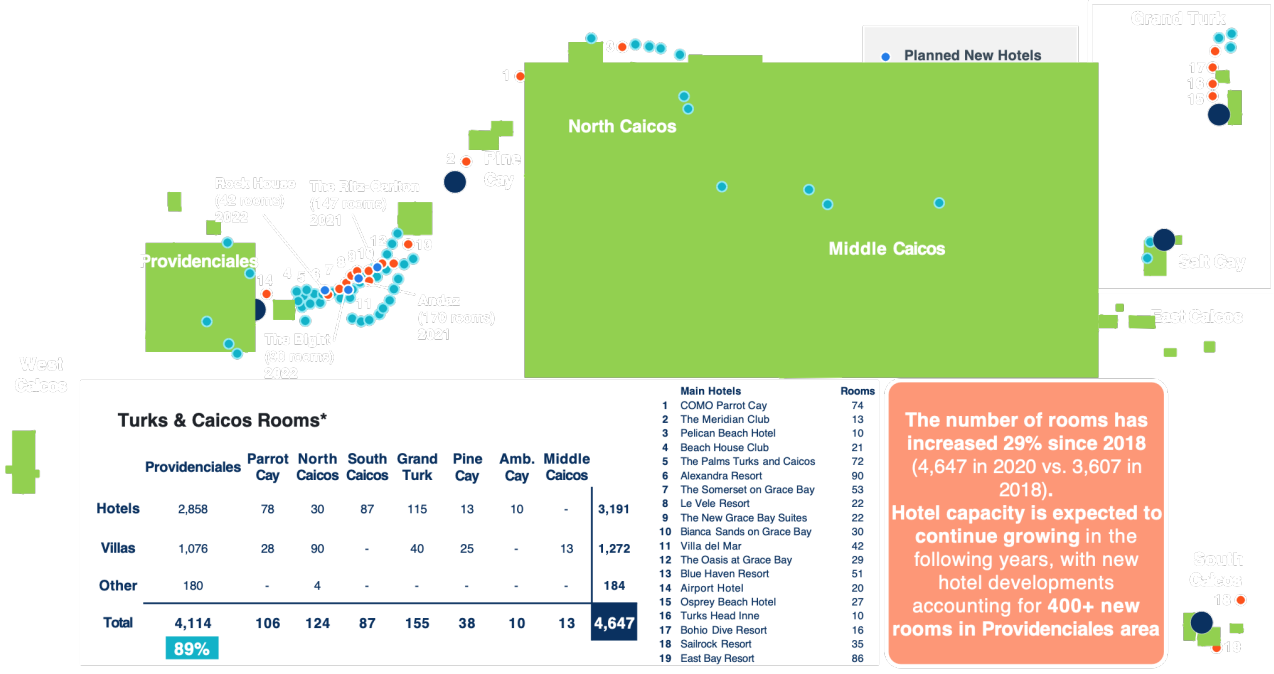


Figure 28. Tourist Capacity Distribution

Air traffic development at TCI will be strongly correlated with the capability to accommodate the tourists, the country has ~4,650 rooms officially registered. The country had almost 1.6M visitors in 2019: ~1.1M arrived in cruises and ~490k travelling by air (>90% originating in North America).

Providenciales island has a hotel density comparable to other mature markets, but other islands in TCI seem to have room for a sustainable development. Providenciales area could reach ~4,900 rooms and there is room for a significant hotel offer increase in the rest of the islands (up to ~3,500 rooms). With sustainable hotel developments, TCI could reach ~1 M tourists annually, implying a traffic of ~2.2 Mpax in PLS (gateway to the country).

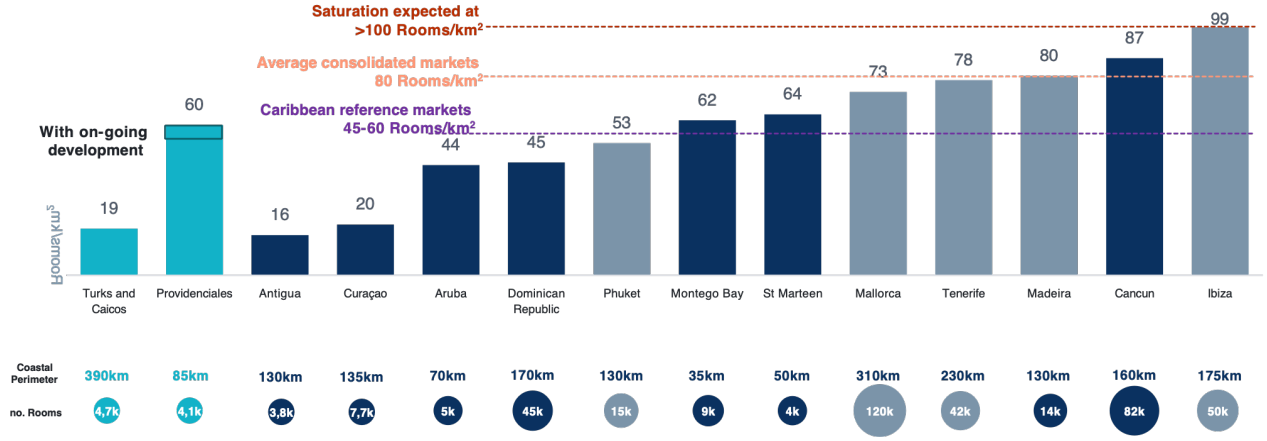


Figure 29. Benchmark of hotel rooms per square kilometer at touristic regions

Also, there is a significant presence of FBO in PLS. FBO segment represented historically a ~2% of traffic in PLS before COVID outbreak. During the pandemic, private aviation increased and represented ~5% of traffic in 2021 (13,000 operations), given that commercial flights were cut. It should be expected that FBO decrease as commercial flights resume.

The main opportunities for traffic development in the archipelago are structured in 4 main axis:

1. **Domestic market**

- Domestic supply suffered few cuts due to COVID outbreak, as Intercaribbean Airways covered the supply cuts of Caicos Express. Domestic market offering in 2022 is almost the same as in 2019. However, lower recovery rates are expected in terms of traffic.
- As derived from the hotel infrastructure analysis, domestic traffic may have additional growth as it will be key to enhance mobility of tourists around the archipelago. Hotel growth in Providenciales Island could reach some limitations in the mid-term, but there is land availability for further touristic development in the other islands.

2. **International market**

- International market, dominated by American carriers suffered -50% supply cuts in 2020 vs 2019. However, the market is recovering fast thanks to the soft country restrictions for foreign arrivals. In fact, some American carriers opened routes and increased supply (vs 2019). Supply in summer season 2022 surpasses 2019 levels by ~20%.
- Development of new routes post-COVID 19 to North America is limited to a few airports and most of the traffic increase is expected to be generated by the organic growth of the main current destinations.
- European market seems limited to the UK market with the organic growth of the London route via Antigua. The penetration of the Latin American market is reduced. The high accommodation rates at TCI difficult the arrival of tourists from this region.

3. **Caribbean market**

- Caribbean market is led by InterCaribbean. The market is limited to few routes to the neighbor countries that would keep growing organically after COVID-19 (purchase power at those countries does not envisage the arrival of additional tourists).
- The Caribbean segment reduced capacity by -20% in 2020 vs 2019 due to COVID-19, but supply is mostly recovered in summer season 2022 (~100% of 2019 seat supply volumes). However, lower recovery rates are expected in terms of traffic.

4. **FBO market**

- FBO traffic actually increased during COVID outbreak (~13,000 operations in 2021 vs. an average of ~7,000 in the previous years). It should be expected that FBO decreases in the short term (as commercial flights resume). Afterwards, this segment is expected to increase organically, always assuming that TCI will be able to offer a high-class touristic offering.

PLS passenger traffic forecast results on a 1.8% CAGR for the concession period ('23-'53), reaching the market cap of 2.2 Mpax in the long term.

	CAGR '19-'23	CAGR '23-'30	CAGR '30-'40	CAGR '40-'53	CAGR '23-'53
Dom	-6.9%	12.6%	3.8%	2.2%	5.1%
Caribbean	-0.5%	4.2%	0.6%	0.5%	1.4%
International	1.8%	4.2%	0.6%	0.5%	1.4%
FBO	4.7%	1.8%	1.0%	0.9%	1.2%
Total	**2.9%**	**4.9%**	**1.0%**	**0.8%**	**1.8%**

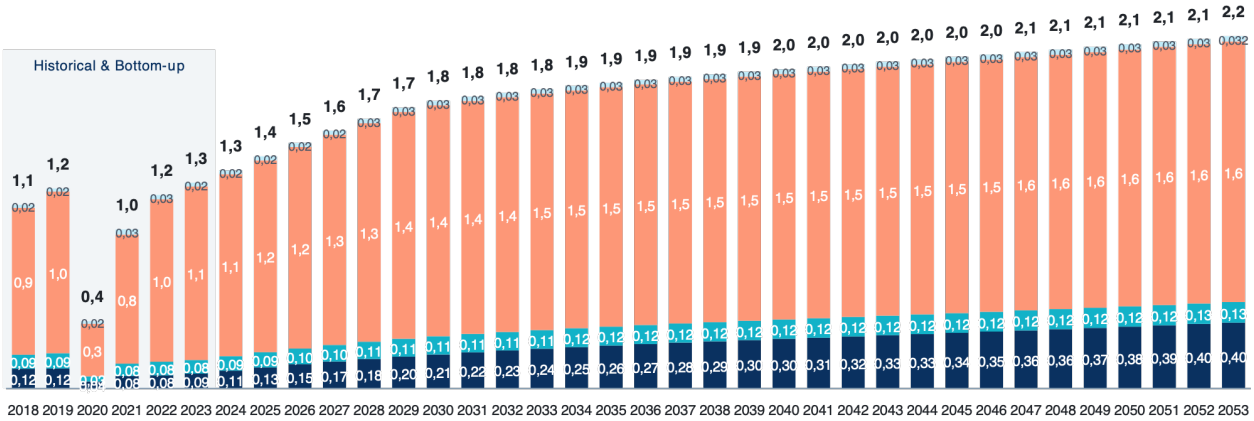


Figure 30. PLS Traffic Forecast (Mpax)

In terms of number of ATMs (Air Traffic Movements), PLS would reach ~54,000 operations in the long term.

However, design parameters are the key parameters when sizing airports' infrastructure: Peak Hour Pax (PHP), peak hour ATMs (ATM/h) and stand demand:

1. **Peak hour Passengers (PHP):** Number of passengers that are in the terminal building at the same time (during a 1-h period). 30th busiest hour in the year for each segment (Domestic, International, Arrivals, Departures), adjusted to match selected ATM/h with coherent Pax/ATM figures. This is the main factor in the capacity design of a terminal. PHP must be evaluated separately for departures and arrivals to size the different areas.
2. **Peak-hour movements (ATM/h):** The peak-hour ATMs are the largest number of take-offs and landings that occur at the same period of time (during a 1h period). This is the main factor to size the capacity of an airfield, including the runway and taxiways, as well as the required boarding gates.
3. **Stand demand:** Stand demand peak is the total number of aircraft that are on ground at a given moment. This is the main factor to size the apron. It is useful to differentiate between dynamic demand and static demand.

With the updated traffic forecast it is expected to reach 2,168 PHPs, 26 ATMs/h and 21 Stands by 2055.

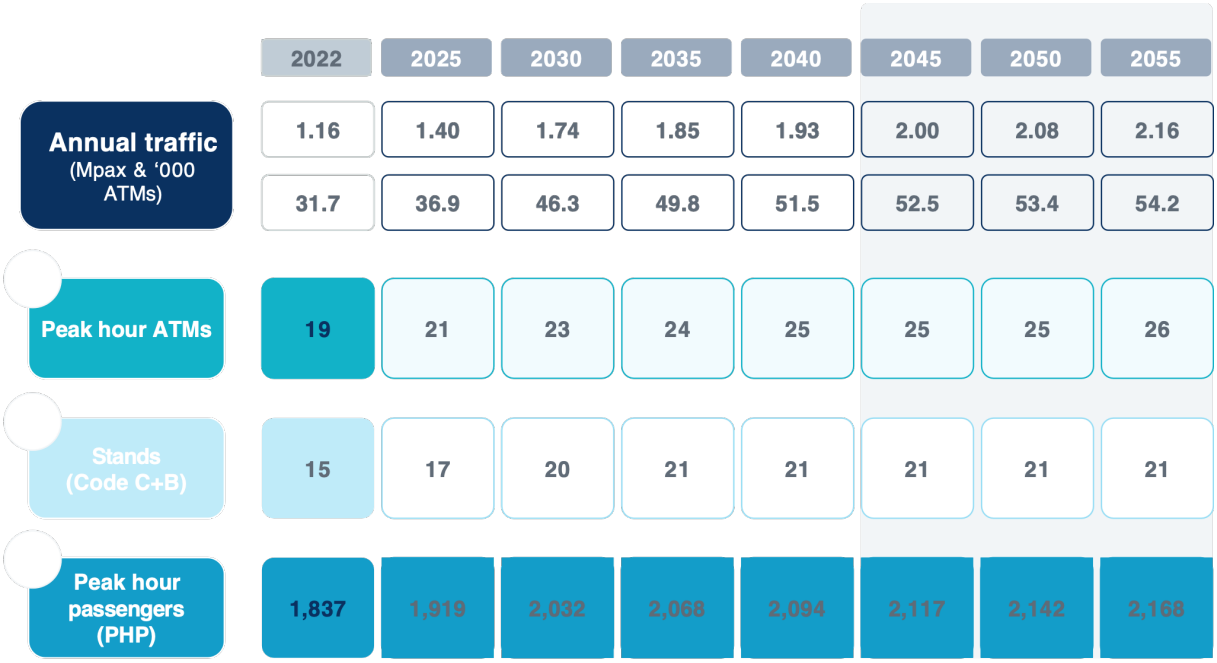


Figure 31. Design Parameters Forecast

Detailed market analysis and traffic forecast hypothesis, methodology and results can be found on Annex 1.1.

4.1.2. Investment Plan

The investment program is defined based on the results of the infrastructure analysis of the main airport facilities: airfield, apron, PTB, and surface access.

The investment strategy has been defined under three categories of investment: expansion CapEx, compliance CapEx, and maintenance CapEx:

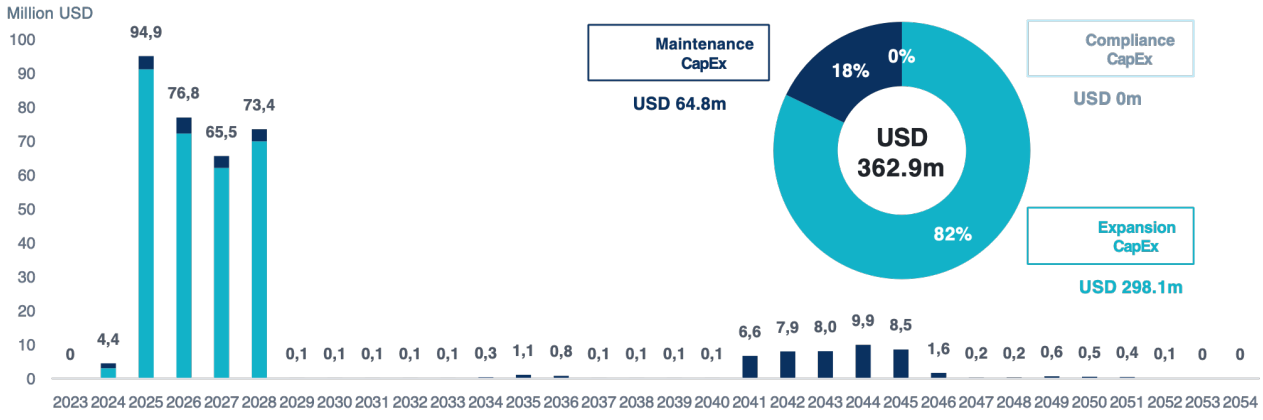
1. **Expansion CapEx:** driven by demand evolution triggers (PHP, stands and Mpax). They comprise investment actions required in order to develop the airport's infrastructure and its processing capacity, and in general, the addition of new infrastructure, equipment or systems not previously existing. They are considered mandatory investment once established demand triggers or pre-identified needs are effective.
2. **Compliance CapEx:** based on pre-identified non-compliances. They refer to actions required to align the airport's infrastructure to the standard and recommended practices (SARPs) of ICAO mainly regarding the safety and security of the operation. This type of investment will adopt the form of capital investment actions or major maintenance and replacement actions. They are considered mandatory investments in the first four years of the concession.
3. **Maintenance CapEx:** linked to the lifecycle of assets, their last intervention and current condition. Also referred to as "Maintenance and Replacement Investments", are actions required to maintain the good and safe operating condition of existing infrastructure. Major maintenance actions may also be required to ensure regulatory compliance (e.g. major rehabilitation of a runway, taxiway or apron pavement to ensure the safe operation of aircraft). A minimum maintenance plan is requested from the bidder as well as a commitment to carry out the proposed plan.

Two construction phases have been proposed to increase the airport's capacity: quick wins and short-term developments:

	2022/2023 Status Quo	2024-2025 Quick wins	2026-2029 Short/Mid Term developments
Airfield	**RWY 9,186 ft** Airfield Capacity **~14 ATMs/h**	**+ Turn Pad** **+ FBO restrictions** Airfield Capacity **~17 ATMs/h**	**+ TWY for DEP** **+ TWY for ARR** Airfield Capacity **26-28 ATMs/h**
Apron	**~750,000 sqft** Stand Capacity **9 code C + 3 code A/B**	**+ 282,000 sqft** Stand Capacity **12 code C + 7 code B**	**+ 110,555 sqft** Stand Capacity **12 code C + 9 code B**
PTB	**92,322 sqft** Terminal Capacity **0.9-1.2 Mpax**	**PTB expansion** **+ 26,700 sqft** Terminal Capacity **1.1-1.6 Mpax**	**New PTB of** **270,000 sqft** Terminal Capacity **2.5-3.6 Mpax**
Surface access	**92,322 sqft** Car parking Capacity **409 spaces**	-	**Expansion with new PTB** Car parking Capacity **612 spaces**

Figure 32. Investment plan phases and scope of the redevelopment project

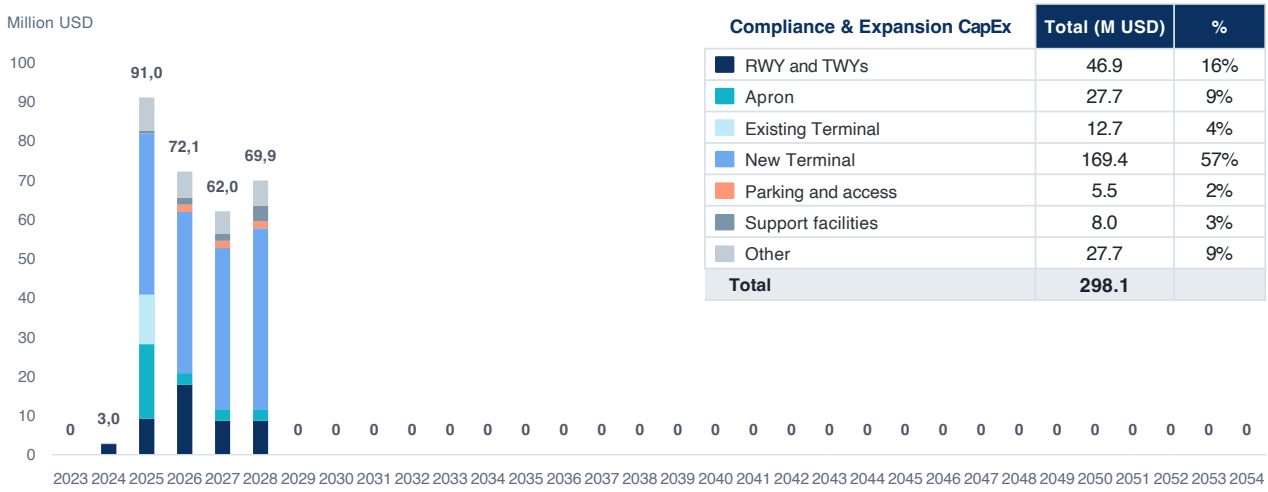
PLS would require an investment of USD 363m for the concession period, accounting expansion CapEx for 82% of total investment (USD 290m).



	2024-2025	2026-2029	2030-2053	Total 2024-2053
Expansion CapEx	USD 94.1m	USD 204.0m	-	USD 298.1m
Compliance CapEx	-	-	-	-
Maintenance CapEx	USD 5.3m	USD 11.8m	USD 47.7m	USD 64.8m
Total 2024-2053	USD 99.4m	USD 215.8m	USD 47.7m	USD 362.9m

Figure 33. Investment Plan (million USD, constant values 2021)

The largest expenditure of the expansion CapEx is the construction of the new Terminal Building, with a total value of USD 169.4m (~60% of total CapEx).



Compliance & Expansion CapEx	Total (M USD)	%
RWY and TWYs	46.9	16%
Apron	27.7	9%
Existing Terminal	12.7	4%
New Terminal	169.4	57%
Parking and access	5.5	2%
Support facilities	8.0	3%
Other	27.7	9%
Total	**298.1**	

Figure 34. Expansion CapEx plan by category of investment (million USD, constant values 2021)

Expansion CapEx is allocated at the beginning of the concession from 2024 to 2028. The construction of the new Passenger Terminal Building (270,000 ft2) is the main expenditure of the concession and its costs is spread over four years (2025-2028). The major investment on the apron is in 2025 driven by the construction of the three code C stands (west). Investment in a new turn pad and new TWYs for ARRs and DEPs is required between 2024 and 2028 in order to increase runway's capacity to accommodate the expected hourly demand. Other costs include preliminary studies (5%) and contingencies (5%).

The largest expenditure of the maintenance CapEx is the repaving of the RWY & TWYs, with a total value of USD 31.3m (~50% of total maintenance CapEx).

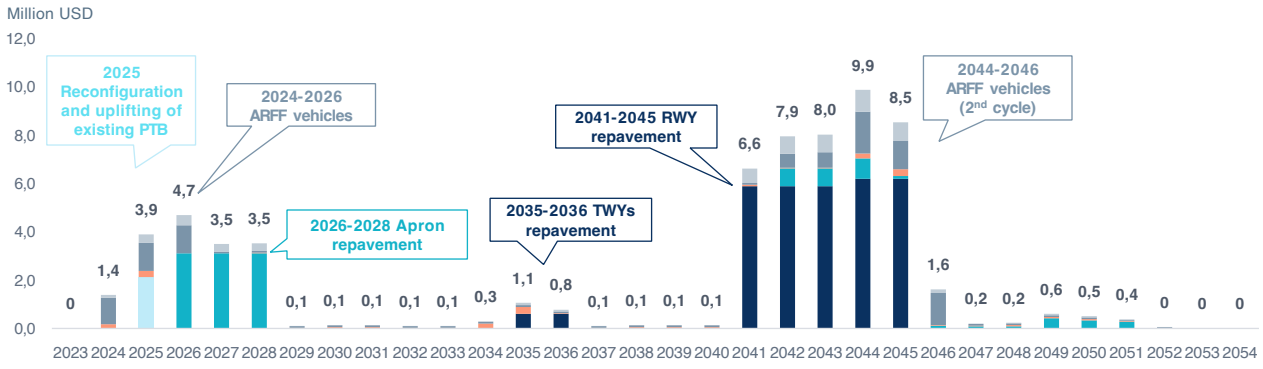


Figure 35. Maintenance CapEx plan by category (million USD, constant values 2021)

Detailed capacity-demand analysis, investment plan and cost hypothesis, methodology and results can be found on Annex 1.2.

4.1.3. Aeronautical Revenues

It is proposed that the airport operator keeps the same passenger-related charges for int'l passengers. Domestic traffic could also be charged.

		USD	Driver	Comments
Passenger-related	Aerodrome Charge	40	Per international departing passengers (commercial only)	This charge is to be levied by the airport operator to cover the costs related to the maintenance of passenger terminal facilities. It is proposed, according to best practice, that domestic passengers should also be charged (with a lower charge), excluding TCI nationals.
		5	Per domestic departing passengers (TCI national excluded)	
	Security charge	5	Per international departing passengers (commercial only)	This charge is to be levied by the airport operator to cover the provision of security costs in the airport. A case study can be done to match security-related costs with this charge. It should be studied if domestic passengers should also be charged.
	Airport Development Charge	20	Per international departing passengers (commercial only)	This charge was implemented in 2010 to finance works in PLS. It should be further analysed if this charge is required to be levied by the airport operator to finance the airport redevelopment project and for how long.
	Environmental Airline System Charge	5	Per international departing passengers (commercial only)	This charge is to be levied by the airport operator. For the time being, it is not clear the nature of this charge (regulated / non regulated). TCIAA should confirm if this charge is Aeronautical Income or Other Income in their P&L.

Figure 36. Proposed passenger-related airport fees and charges

The airport operator could add some aircraft-related charges as per industry trends (at least PBB usage fee after the opening of the new terminal building).

		USD	Driver	Comments
Aircraft-related	Landing charges	~350 USD x A320	All aircraft landing at PLS based on their MTOW	This charge is to be levied by the airport operator to cover the costs related to the airport maintenance. Current charges are competitive and it is recommended to keep the same structure. In case of capacity constraints, differentiation can be made between peak vs. off-peak times.
	Parking charges	~50 USD/day x A320	All aircraft landing at PLS based on their MTOW (free of charge the first 2 hours)	This charge is to be levied by the airport operator. Current charges are competitive and it is recommended to keep the same structure. In case of capacity constraints, differentiation can be made between peak vs. off-peak times.
	PBB use	80 USD	All aircraft using Passenger Boarding Bridges (PBB)	PBB use charge is a common industry practice aimed to cover for the related costs of both construction and maintenance of the PBB units. Charge would be levied by the airport operator.
	Noise & Emissions	Not included	All aircraft landing at PLS based on their MTOW	Noise & Emissions charges are becoming a common industry practice aimed to cover for the related costs. Charge would be levied by the airport operator.

Figure 37. Proposed aircraft-related airport fees and charges

Air Navigation fees & Tourism taxes are excluded from the Business Plan of the airport operator.

Resulting aeronautical revenues are the outcome of applying defined airport fees and charges to the corresponding traffic driver (passengers by segment, ATMs by nature and MTOW) and could reach up to USD 62 million per year in the long term, with a unit revenue per passenger decreasing from 32 to 29 USD/pax as a result of the traffic mix.

Charges are proposed to be updated every three years, starting from 2023, based on the accrued US CPI. This is the proposed update mechanism, which should be validated and included in the Economic Regulation.

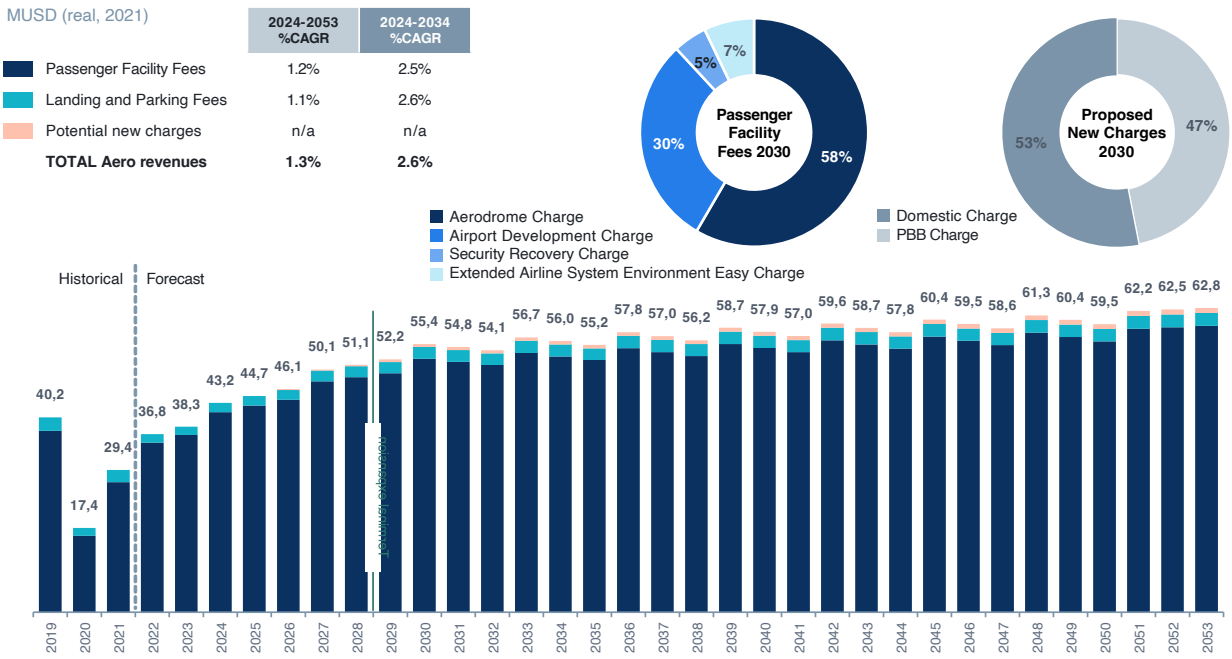


Figure 38. Aeronautical revenue forecast (2019-2053)

Detailed airport fees and charges analysis, aeronautical revenue forecasting hypothesis, methodology and results can be found on Annexes 1.4 and 1.5.

4.1.4. Non-Aeronautical Revenues

Non aeronautical revenues represent <20% of total revenues, unit revenue was ~6 USD/pax in 2019, higher than 50th percentile of ACI benchmarks. It should be expected that commercial revenues increase with the opening of the new terminal based on three main levers:

1. **Increase of unit sales** due to more area available and higher penetration rates.
    a. Total commercial area of 37,400 sqft (17,00 sqft per Mpax)
    b. Distribution of Duty Free, F&B and Retail areas according to international best practices
    c. Commercial areas located strategically in the passenger flow
    d. Adequate landside vs. airside distribution
    e. Premium spaces for business travelers (new VIP lounges)
2. **Contract negotiation towards a variable fee (revenue sharing)** according to international best practices and sector trends, updated with time.
    a. New contracts will be tendered when the new terminal is inaugurated
    b. This offers an opportunity to improve the terms of the contracts, defining a revenue sharing that is closer to industry trends and updates over time, thus being more favourable for the airport operator
    c. The current contracts need to be studied to understand the options of rescinding / extending them
3. **Increase of unit sales per passenger as a result of the enhancement of offering and product mix upgrade**
    a. New contracts should aim to attract commercial businesses with experience in both the region and the airport sector
    b. The new airport operator will be able to develop sales strategies and support dealers in boosting sales supporting an increase in sales to generate revenues in excess of the established fixed rents

c. This improvement is set to increase sales

The estimation of commercial revenues in the new terminal is performed based on benchmarks and sector trends. Non-aeronautical revenues to grow at a CAGR of 2.3% until 2053, reaching 20.6 MUSD; in a Status Quo case revenues could reach 12.5 MUSD.

MUSD (real, 2021)

	2024-2028 %CAGR	2028-2033 %CAGR	2029-2053 %CAGR
Dues, Rents & Other	9.3%	-	-
Other Operational Income	6.2%	-	-
Duty-free	-	-	2.3%
Retail	-	-	4.0%
Food & Beverage (F&B)	-	-	2.3%

	2024-2028 %CAGR	2028-2033 %CAGR	2029-2053 %CAGR
Car parking	-	-	1.6%
Car rental	-	-	1.6%
Advertising	-	-	1.6%
VIP Lounge	-	-	4.5%
Other	-	-	1.6%
TOTAL Private scenario	**7.5%**	**11.1%**	**2.3%**

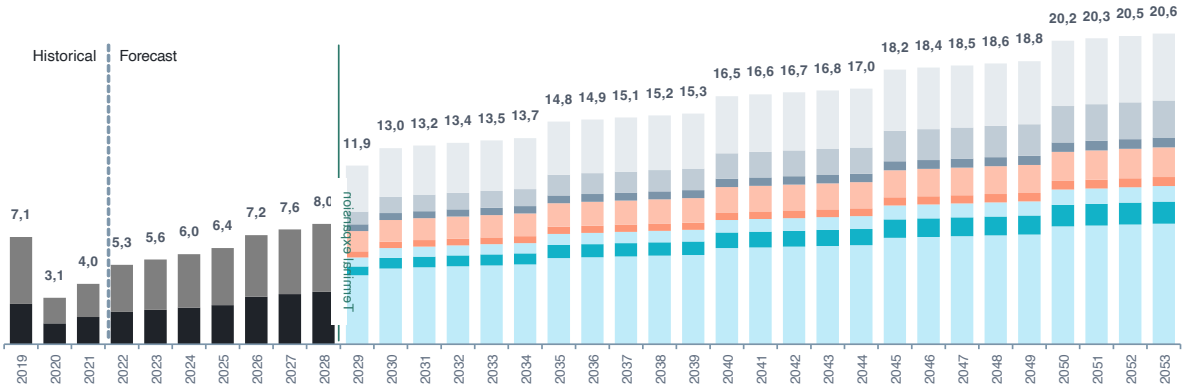


Figure 39. Non-aeronautical revenue forecast (2019-2053)

Detailed commercial performance analysis, non-aeronautical revenue forecasting hypothesis, methodology and results can be found on Annex 1.5.

4.1.5. Operational expenditures

PLS has high OpEx compared to benchmarks; specially personnel since it carries out many of the non-core activities in-house (e.g. cleaning, security, ARFF, parking). PLS level of externalization is low when compared to international best practices, given the limited resources available (isolated region).

Operational expenses categories include:

1. **Personnel:** personnel costs per passenger are forecasted to continue above benchmark as the Business Plan does not consider outsourcing strategies. Personnel costs are projected based on the number of staff required and the average cost per employee. Number of employees per category have been adjusted with an elasticity to traffic growth and an area growth. Real costs per employee are considered constant in real terms (salaries updated with inflation). Personnel costs in the Private Scenario are smaller when compared to the Status Quo case, in order to better represent a leaner operation which is typically associated with a private operation. Changes of outsourcing strategy are not foreseen in the Business Plan, so unit costs are still above benchmark even in the long term.

2. **Maintenance:** Maintenance costs are twice those of the benchmark, which seems high considering that there is a part already counted as in-house personnel costs (maintenance personnel). Elasticities to both traffic and area growths have been applied to project the cost to 2053; two different scenarios considered: Private Operator Scenario: projected with elasticities of 5% to traffic growth and 5% to area growth – cost reduction strategies. Status Quo Scenario: projected with elasticities of 10% to traffic growth and 40% to area growth – status quo. It is expected that Maintenance costs per passenger moderate throughout the forecasted period, falling to (Status Quo scenario) the average of the benchmarked airports or low range in the Private Operator scenario.

3. **Utilities:** Utilities costs seem high compared to benchmarks (>1 USD/pax). Further data should be provided (electricity and water bills, historical consumption in kWh, power installed in kW). A conservative approach has been taken considering the current higher than average unit costs, considering two scenarios: Private Operator

Scenario: projected with elasticities of 10% to traffic growth and 40% to area growth – energy efficiency strategies and Status Quo Scenario: projected with elasticities of 10% to traffic growth and 60% to area growth – status quo. It is expected that Utilities costs per passenger moderate throughout the forecasted period, however these will still be twice as much the benchmark average in the most optimistic case (Private scenario).

4. **Other costs:** This cost item includes: Consultancy and professional fees, Insurance, Office and administration costs, IT costs, TSA cost added to the Status Quo scenario. Other costs for the Status Quo case have been projected with higher elasticities to traffic and area growth than for the Private scenario, to represent the cost reduction initiatives that a private entity would undertake.

Operational Expenses are expected to grow at a CAGR of 0.7% between 202 and 2053, reaching 16 USD; two thirds of the OpEx is Personnel costs.

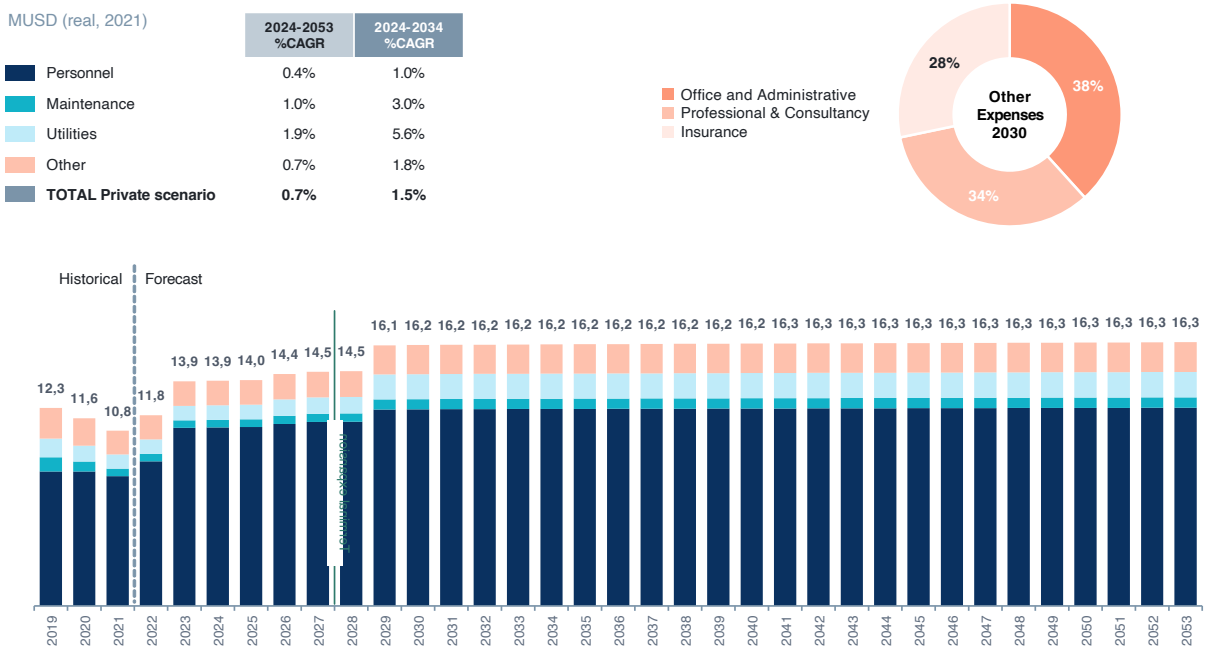


Figure 40. Operating expenses forecast (2019-2053)

Detailed operational expenditure analysis, forecasting hypothesis, methodology and results can be found on Annex 1.5.

4.2. Financing sources

This section explains the sources of finance to be used under the preferred PPP option and the public sector self-financing option:

1. **Public sector self-financing:**
    a. **Government-backed bonds:** Governments may issue bonds to finance airport redevelopment. These bonds are typically backed by the full faith and credit of the government and may be issued at below-market interest rates.
    b. **TCIAA funding:** Available resources on TCIAA accounts may be used for the funding of parts of the redevelopment project based on total investment needs and available capital. However, this option is considered unlikely since these funds have already designated purposes and may jeopardize the development of other areas of the aviation sector that are not financially self-sustainable.
    c. **Tax incentives:** Governments may offer tax incentives to encourage private investment in airport infrastructure projects. These incentives can take many forms, such as tax credits, accelerated depreciation schedules, or exemptions from certain taxes.
2. **PPP project financed by the private party:** the sources of private financing come from the capital market based on the financial capabilities of the Private Partner. Specific capital access financial requirements should be established as evaluation criteria in the preferred bidder selection process. The two main sources of private financing are:
    a. **Equity financing:** available resources from the Private Partner made available for the purposes of financing the required investments and capital needs of the redevelopment project. Equity financing can be structured as either common equity or preferred equity. Common equity represents ownership in the Special Purpose Vehicle entity constituted for the DBFOM scope of the airport and entitles the investor to a share of the profits, while preferred equity represents ownership with a priority claim to the airport's cash flows.
    b. **Debt financing:** this involves borrowing money from private lenders who provide capital in exchange for interest payments and the repayment of principal. Debt financing can be structured as either bank loans or bond issues. Sources of debt may include:
        i. Development finance institutions/Multilateral Development Banks (MDBs): These are public or private entities that provide long-term financing for infrastructure projects in developing countries. They can provide both debt and equity financing and often have a mandate to promote sustainable economic development.
        ii. Sovereign wealth funds: These are government-owned investment funds that typically invest in a range of assets, including infrastructure projects. Sovereign wealth funds have significant financial resources and a long-term investment horizon, making them a potentially attractive source of financing for airport PPPs.
        iii. Infrastructure funds: Private equity firms and other institutional investors often establish infrastructure funds that invest in PPPs. These funds typically have long-term investment horizons and seek to provide stable, long-term returns to their investors.
    c. **Self-generated resources:** since the project is considered a revenue generating and potentially self-sustainable from the financial perspective, the excess of cash generated could be used to finance specific components of the redevelopment project. This is subject to the dividing policy established and the decision of the Private Partner on how to allocate their financial resources.

Cost of capital may vary under each alternative, providing potential levers for improvement of the financial results of the PPP based on the combination of Equity/Debt and availability of cheaper cost of capital based on Private Partner's profile.

4.3. Financial Model

The financial model brings together all the financial flows related to the project. A flexible tool has been developed to address the different alternatives for the project by parametrizing the required applicable inputs in terms of traffic, investment plan, revenues, expenditures, and financing sources. This tool has been used to assess the financial outcomes (Profit and Loss, Cash Flows, Balance Sheet, Cost-Benefit analysis with the Public Sector Comparator and Value for Money) and can be used for the development of the Final Business Case when the final scheme is established.

The financial model reflects all macro-economic effects since all costs and revenues are indexed to the applicable inflation rates, the applicable cost of capital for each financing alternative and resulting cash flows (revenues and costs, including procurement costs) for the Public Sector.

The model methodology as well as the inputs, outputs and assumptions used have been sense and sanity checked for accuracy by our consultants, using their quality assurance processes. The outputs derived from the models have been reviewed by sector experts and independently peer reviewed.

4.3.1. PPP Model Structure

The structure of the PPP Model comprises:

1. Traffic estimations and its different scenarios
2. Aeronautical revenue forecast based on the applicable airport fees and charges
3. Non-aeronautical revenue forecast based on the hypothesis for the development of the non-aeronautical activities
4. Operational expenditures forecast based on the applicable split of the main cost components and associated contingencies
5. Set-up, preoperational and transaction structuring (procurement) costs
6. Investment plan associated to the redevelopment project needs (compliance, expansion, and maintenance CapEx)
7. Depreciation of the assets included and acquired during the concession period
8. Inflation indexation for the corresponding revenue and cost items
9. Financial costs associated to the proposed financing structure and applicable interest rates
10. Applicable taxation considerations

It has been constructed to provide the following outcomes:

1. Profit and loss
2. Cash flow projections (including cost of capital and discount rate calculations)
3. Balance Sheet
4. Proposed funding scheme and debt repayment structure
5. Proposed taxation scheme
6. Government Cash Flows
7. Risk allocation Matrix
8. Cost-Benefit Analysis
9. Value for Money

4.3.2. PPP Model Assumptions

The PPP model includes the assumptions of the Business Plan presented in previous sections of this Financial Case.

Additionally, it includes the following main considerations:

General assumptions	**Concession period**	Start of concession on **01/01/2024** with a period of **30 years**
	Investment program	**Based on infrastructure requirements** assuming **current operation (VFR)**
	Traffic growth scenario	**Base case**
	Others	**New PBB charge of 80USD per use** (from 2029) **New DOM charge for DEP non-national DOM pax** – 5 USD (from 2026)
Financing	**Gearing**	**70% Debt / 30% Equity** for Expansion CapEx
	Interest rate on debt	**6.85%** nominal (T-Bonds 20Y + Baa1 Country Risk Premium + Private Spread)
	Debt tenor	**15 years**
	Debt Service Coverage Ratio (DSCR)	**1.35x**
	Corporate tax rate	**0.00%**
Other assumptions	**Fees and charges**	Updated based on **IPC USD** (every three years)
	Inflation	Based on IPC USA (long-term inflation 2.00%)
	Equity IRR target	**Equal to Cost of Equity (Ke)** – Risk Free Rate (US T-Bond 20Y) + Market Risk Premium x Beta Leveraged + Country Risk Premium
Valuation	**Concession fee to TCIAA**	**Result of Ke = IRR (>30% of gross revenues)**

Figure 41. PPP model characterization

The main outcome of the financial model is the maximum concession fee that a Private Partner may be willing to pay to the TCIAA whilst obtaining attractive returns for their shareholders.

For such reason, a sensitivity analysis has been carried out on the maximum concession fee based on the concession term (number of years) and expected Ke (shareholders' cost of equity).

Sensibility concession fee vs discount rate (NPV = 0)

Concession Period vs. Discount rate Private Investor (Cost of Equity, Ke)	19.02%	17.02%	15.02%	13.02%	11.02%
20 years	16.8%	22.9%	28.6%	34.0%	38.9%
25 years	19.7%	26.1%	32.2%	37.6%	42.8%
30 years	20.7%	27.4%	33.6%	39.4%	44.9%

Figure 42. Sensibility on maximum concession fee based on Ke and concession duration

Bidders with better access to financing or better control of the risks associated with the project (lower discount rates applied) will be able to offer higher concession fees.

4.3.3. PPP Model Results

The financial outcomes of the Financial Model for the PPP alternative with a DBFOM model are shown below:

Profit and Loss

PROFIT & LOSS	Unit	Total	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2038	2043	2048	2053
REVENUES																
Aeronautical Revenues	000 USD	**2.806.151**	51.752	54.905	57.839	64.202	66.750	69.635	75.351	76.065	76.681	82.039	89.910	103.919	119.977	136.081
Non Aeronautical Revenues	000 USD	**767.202**	7.163	7.850	9.088	9.769	10.436	15.821	17.703	18.328	18.952	19.576	24.307	29.811	36.494	44.680
TOTAL REVENUES	**000 USD**	**3.573.353**	**58.915**	**62.755**	**66.927**	**73.971**	**77.186**	**85.456**	**93.054**	**94.393**	**95.634**	**101.615**	**114.216**	**133.730**	**156.471**	**180.761**
OPERATIONAL EXPENSES (OPEX)		**0**														
Staff	000 USD	**-595.793**	-13.235	-13.625	-14.141	-14.589	-14.913	-16.217	-16.565	-16.914	-17.270	-17.633	-19.559	-21.652	-23.992	-26.588
Maintenance	000 USD	**-30.404**	-566	-583	-631	-645	-660	-842	-861	-879	-897	-916	-1.017	-1.126	-1.248	-1.384
Utilities	000 USD	**-73.237**	-1.079	-1.115	-1.276	-1.309	-1.342	-2.055	-2.102	-2.148	-2.195	-2.243	-2.495	-2.768	-3.074	-3.415
Other	000 USD	**-88.153**	-1.818	-1.878	-1.982	-2.032	-2.082	-2.400	-2.455	-2.509	-2.564	-2.619	-2.913	-3.232	-3.589	-3.986
PPP Fee	000 USD	**-1.202.310**	-19.823	-21.115	-22.519	-24.889	-25.970	-28.753	-31.309	-31.760	-32.177	-34.190	-38.430	-44.995	-52.647	-60.820
TOTAL OPERATIONAL EXPENSES	**000 USD**	**-1.989.897**	**-36.521**	**-38.315**	**-40.549**	**-43.464**	**-44.967**	**-50.268**	**-53.292**	**-54.210**	**-55.104**	**-57.602**	**-64.414**	**-73.774**	**-84.550**	**-96.192**
EBITDA	**000 USD**	**1.583.456**	**22.394**	**24.439**	**26.378**	**30.507**	**32.218**	**35.188**	**39.762**	**40.182**	**40.530**	**44.014**	**49.803**	**59.956**	**71.921**	**84.569**
Annual Depretiation & Amortization	000 USD	-483.939	-437	-5.507	-9.892	-13.666	-18.202	-18.215	-18.227	-18.238	-18.245	-18.233	-16.178	-17.869	-16.440	-17.113
EBIT	**000 USD**	**1.099.518**	**21.957**	**18.932**	**16.486**	**16.841**	**14.017**	**16.973**	**21.535**	**21.945**	**22.285**	**25.780**	**33.625**	**42.087**	**55.481**	**67.455**
Financial Expenses	**000 USD**	**-178.976**	**-5.641**	**-3.144**	**-7.883**	**-11.639**	**-15.227**	**-16.711**	**-15.871**	**-14.972**	**-14.012**	**-12.986**	**-6.700**	**-505**	**-150**	**-150**
Debt Interests & Fees	**000 USD**	**-178.976**	-5.641	-3.144	-7.883	-11.639	-15.227	-16.711	-15.871	-14.972	-14.012	-12.986	-6.700	-505	-150	-150
Financial Result	**000 USD**	**-178.976**	**-5.641**	**-3.144**	**-7.883**	**-11.639**	**-15.227**	**-16.711**	**-15.871**	**-14.972**	**-14.012**	**-12.986**	**-6.700**	**-505**	**-150**	**-150**
PROFIT BEFORE TAXES	**000 USD**	**920.542**	**16.316**	**15.788**	**8.603**	**5.202**	**-1.210**	**262**	**5.665**	**6.972**	**8.272**	**12.794**	**26.925**	**41.582**	**55.331**	**67.305**
Corporate Tax	**000 USD**	**0**	0	0	0	0	0	0	0	0	0	0	0	0	0	0
PROFIT AFTER TAXES	**000 USD**	**920.542**	**16.316**	**15.788**	**8.603**	**5.202**	**-1.210**	**262**	**5.665**	**6.972**	**8.272**	**12.794**	**26.925**	**41.582**	**55.331**	**67.305**

Figure 43. Profit and Loss for the PPP alternative

Cash Flows

CASH WATERFALL	Unit	Total	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2038	2043	2048	2053
Revenues	000 USD	**3.573.353**	58.915	62.755	66.927	73.971	77.186	85.456	93.054	94.393	95.634	101.615	114.216	133.730	156.471	180.761
Operational Costs	000 USD	**-1.989.897**	-36.521	-38.315	-40.549	-43.464	-44.967	-50.268	-53.292	-54.210	-55.104	-57.602	-64.414	-73.774	-84.550	-96.192
EBITDA	**000 USD**	**1.583.456**	**22.394**	**24.439**	**26.378**	**30.507**	**32.218**	**35.188**	**39.762**	**40.182**	**40.530**	**44.014**	**49.803**	**59.956**	**71.921**	**84.569**
Operating interest received	000 USD	**0**	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Capex expenditure	000 USD	**-483.939**	-6.299	-116.738	-96.416	-83.891	-95.904	-145	-190	-194	-153	-156	-224	-14.193	-461	0
Working capital movement	000 USD	**-6.389**	-2.012	-149	-135	-276	-113	-209	-296	-41	-28	-239	-32	-40	-313	-185
Project Cash Flows before taxes	**000 USD**	**1.093.128**	**14.082**	**-92.448**	**-70.173**	**-53.660**	**-63.798**	**34.834**	**39.276**	**39.947**	**40.349**	**43.619**	**49.546**	**45.722**	**71.147**	**84.383**
Tax Payments	000 USD	**0**	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Project Cash Flows after taxes	**000 USD**	**1.093.128**	**14.082**	**-92.448**	**-70.173**	**-53.660**	**-63.798**	**34.834**	**39.276**	**39.947**	**40.349**	**43.619**	**49.546**	**45.722**	**71.147**	**84.383**
Cash Flows Available to Debt	**000 USD**	**1.093.128**	**14.082**	**-92.448**	**-70.173**	**-53.660**	**-63.798**	**34.834**	**39.276**	**39.947**	**40.349**	**43.619**	**49.546**	**45.722**	**71.147**	**84.383**
Debt Principal	000 USD	**-264.481**	0	-131	-3.294	-6.071	-8.725	-11.895	-12.710	-13.581	-14.511	-15.505	-21.595	-6.505	0	0
DSRA Change	000 USD	**0**	0	0	-5.514	-3.266	-3.121	-2.327	13	14	15	16	23	2.932	0	0
Debt Principal Repayment	000 USD	**-264.481**	0	-131	-3.294	-6.071	-8.725	-11.895	-12.710	-13.581	-14.511	-15.505	-21.595	-6.505	0	0
Interest & Bank Fees	000 USD	**-174.476**	-5.491	-2.994	-7.733	-11.489	-15.077	-16.561	-15.721	-14.822	-13.862	-12.836	-6.550	-355	0	0
Performance Bond Costs	000 USD	**-4.500**	-150	-150	-150	-150	-150	-150	-150	-150	-150	-150	-150	-150	-150	-150
Debt Cash Flows	**000 USD**	**-178.976**	**-2.396**	**75.092**	**46.678**	**34.616**	**36.835**	**-30.934**	**-28.568**	**-28.539**	**-28.509**	**-28.476**	**-28.272**	**-4.078**	**-150**	**-150**
Cash Flows Available to Shareholders	**000 USD**	**914.153**	**11.686**	**-17.356**	**-23.495**	**-19.044**	**-26.963**	**3.900**	**10.708**	**11.408**	**11.840**	**15.143**	**21.274**	**41.644**	**70.997**	**84.233**
Common Stock: Increases (+) / Decreases (-)	000 USD	**11.335**	139	3.359	2.716	2.383	2.739	0	0	0	0	0	0	0	0	0
Increase of Reserves for Cash Shortfalls & Share Premium	000 USD	**102.934**	1.252	31.148	24.442	21.443	24.650	0	0	0	0	0	0	0	0	0
Dividends paid	000 USD	**-944.189**	0	0	0	0	0	-39.098	-3.900	-10.708	-11.408	-11.840	-21.031	-36.027	-66.350	-81.809
Equity Cash Flows	**000 USD**	**-829.920**	**1.391**	**34.506**	**27.158**	**23.825**	**27.389**	**-39.098**	**-3.900**	**-10.708**	**-11.408**	**-11.840**	**-21.031**	**-36.027**	**-66.350**	**-81.809**
Net cash flow in the period	**000 USD**		**13.077**	**17.150**	**3.663**	**4.781**	**426**	**-35.198**	**6.808**	**700**	**433**	**3.303**	**244**	**5.617**	**4.647**	**2.424**
Cash Beginning of Period	000 USD		0	13.077	30.227	33.890	38.672	39.098	3.900	10.708	11.408	11.840	21.031	36.027	86.350	81.809
Cash End of Period	**000 USD**		**13.077**	**30.227**	**33.890**	**38.672**	**39.098**	**3.900**	**10.708**	**11.408**	**11.840**	**15.143**	**21.274**	**41.644**	**70.997**	**84.233**

Figure 44. Cash Flow for the PPP alternative

Balance Sheet

BALANCE SHEET	Unit	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2038	2043	2048	2053
ASSETS															
Current Assets	**000 USD**	**17.953**	**35.433**	**44.957**	**53.584**	**57.379**	**25.221**	**32.642**	**33.440**	**33.939**	**37.741**	**44.818**	**56.158**	**83.925**	**99.204**
Debtors Balance	000 USD	4.829	5.158	5.501	6.080	6.327	7.024	7.648	7.758	7.839	8.352	9.388	10.992	12.826	14.857
Stock & Inventory Balance	000 USD	46	48	52	53	54	69	71	72	74	75	84	93	102	114
VAT Tax Credit	000 USD	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Debt Service Reserve Account, DSRA	000 USD	0	0	5.514	8.780	11.901	14.228	14.215	14.202	14.187	14.171	14.072	3.430	0	0
Cash	000 USD	13.077	30.227	33.890	38.672	39.098	3.900	10.708	11.408	11.840	15.143	21.274	41.644	70.997	84.233
Non-Current Assets	**000 USD**	**5.862**	**117.093**	**203.617**	**273.843**	**351.545**	**333.475**	**315.438**	**297.395**	**279.303**	**261.225**	**179.532**	**135.220**	**81.766**	**0**
Fixed Assets	000 USD	5.862	117.093	203.617	273.843	351.545	333.475	315.438	297.395	279.303	261.225	179.532	135.220	81.766	0
TOTAL ASSETS	**000 USD**	**23.815**	**152.527**	**248.574**	**327.427**	**408.924**	**358.696**	**348.081**	**330.834**	**313.242**	**298.966**	**224.350**	**191.378**	**165.691**	**99.204**
NET EQUITY & LIABILITIES															
NET EQUITY	**000 USD**	**17.707**	**68.001**	**103.762**	**132.790**	**158.969**	**120.133**	**121.898**	**118.162**	**115.027**	**115.981**	**135.750**	**184.952**	**158.245**	**90.623**
Capital and Reserves	**000 USD**	**17.707**	**68.001**	**103.762**	**132.790**	**158.969**	**120.133**	**121.898**	**118.162**	**115.027**	**115.981**	**135.750**	**184.952**	**158.245**	**90.623**
Called Up Share Capital	000 USD	139	3.498	6.213	8.596	11.335	11.335	11.335	11.335	11.335	11.335	11.335	11.335	11.335	11.335
Free Reserves (+) / Accumulated Losses (-)	000 USD	1.252	48.715	88.946	118.991	148.844	108.536	104.898	99.855	95.420	91.852	97.491	132.036	91.580	11.982
Profit / (Loss) of the Year	000 USD	16.316	15.788	8.603	5.202	-1.210	262	5.665	6.972	8.272	12.794	26.925	41.582	55.331	67.305
LIABILITIES	**000 USD**	**6.108**	**84.525**	**144.812**	**194.637**	**249.955**	**238.563**	**226.183**	**212.672**	**198.215**	**182.986**	**88.600**	**6.426**	**7.446**	**8.581**
Non-Current Liabilities	**000 USD**	**3.245**	**81.481**	**141.556**	**191.078**	**246.260**	**234.365**	**221.655**	**208.074**	**193.563**	**178.058**	**83.070**	**0**	**0**	**0**
Debt	000 USD	3.245	81.481	141.556	191.078	246.260	234.365	221.655	208.074	193.563	178.058	83.070	0	0	0
Current Liabilities	**000 USD**	**2.863**	**3.044**	**3.256**	**3.560**	**3.695**	**4.198**	**4.528**	**4.598**	**4.652**	**4.928**	**5.530**	**6.426**	**7.446**	**8.581**
Creditors Balance	000 USD	426	441	479	491	502	653	668	683	695	712	792	879	973	1.083
Other Current Liabilities Balance	000 USD	2.437	2.603	2.776	3.068	3.193	3.545	3.860	3.916	3.956	4.215	4.738	5.547	6.473	7.498
Corporation Tax Payable Balance	000 USD	0	0	0	0	0	0	0	0	0	0	0	0	0	0
TOTAL NET EQUITY & LIABILITIES	**000 USD**	**23.815**	**152.527**	**248.574**	**327.427**	**408.924**	**358.696**	**348.081**	**330.834**	**313.242**	**298.966**	**224.350**	**191.378**	**165.691**	**99.204**

Figure 45. Balance Sheet for the PPP alternative

Detailed results from the Financial Model are included in Annex 5.

4.3.4. Public Sector Comparator Assumptions and Results

For the Public Sector Comparator, an analysis in two layers has been carried out:

1. **Assessment of Government cash flows for the PPP and the Self-Funding scenarios** in accumulated revenues and NPV

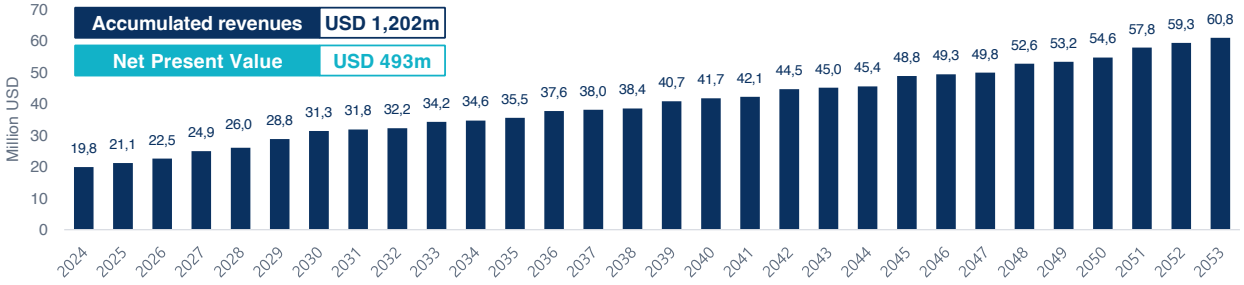


Figure 46. Government Fees – PPP revenue share (USD million, nominal)

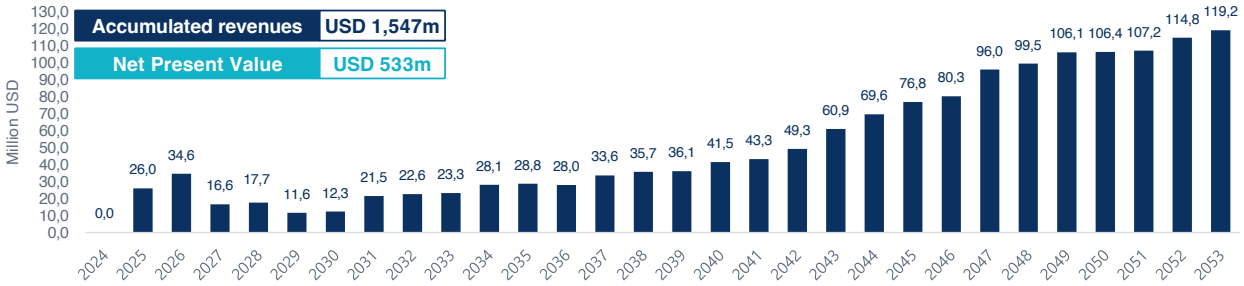


Figure 47. Government Dividends – Self-funding scenario (USD million, nominal)

2. **Assessment of the Value for Money of both alternatives.** Since the previous analysis does not take into consideration the allocation of risks. Whilst the PPP scenario offers namely the opportunity to transfer the majority of the risks to the private operator. Thus, it is key to undertake a risks assessment and calculate the Value for Money to determine the suitability of a concession

	Percentile 5	Percentile 50	Percentile 95
Total Adjusted Cost of the Reference Project	-117,144,779 USD	300,614,551 USD	1,477,820,419 USD
PPP Adjusted Project Cost	8,311,653 USD	109,558,310 USD	402,977,417 USD
Value for Money (VfM)	-125,456,433 USD	191,056,241 USD	1,074,843,002 USD

Figure 48. Value for Money results

The results obtained show that VfM is generated with the PPP project, so its development through PPP is appropriate, as supported by the sensitivity analysis carried out, also generating income for the Government.

Apart from the direct contribution to the TCIAA and Public Sector accounts, it is cornerstone to highlight the cost of opportunity that would result from the public financing of a self-sustainable project. Should public funds be injected into a Project that has proven financial feasibility under standard and stress conditions after running a series of sensitivities, other critical projects that could be considered as "non-revenue generating projects" may be subject to the lack of the required public funding.

Detailed results from the Financial Model and the Value for Money exercise are included in Annex 1.7.

4.3.5. Affordability test

The preferred option has proven its affordability based on the revenue and value generation for the public sector. Set-up, procurement, and transaction structuring costs have been included in the public sector results and, therefore, results already consider the required contingencies for the execution of the project from the public perspective.

Additionally, an independent review has been appointed and carried out according to the PPO and the PFMO reviewing the financial model and validating that the underlying assumptions and functionalities are correct, confirming the conclusions after the corresponding workshops, reviews and sensitivities.

The final affordability test will be carried out during the elaboration of the Final Business Case, where detailed inputs provided by the private partner will allow the assurance of the final cost and revenue assumptions and final risk allocation based on the contractual considerations.

5. Management Case

This Management Case as set out here demonstrates that the necessary oversight and management arrangements that either are in place or are in formation to ensure the successful delivery project. At Annex 1.6 the legal framework currently in existence and those plans currently being pursued to improve delivery and good governance in the management of the Project are extensively discussed.

The Management Case provides the status of development of the detailed plans required, which will be implemented by the Project Manager whose engagement has already been processed as outlined in Annex 10.

The contents of the Management Case include:

1. Delivery, management and governance arrangements.
2. Key roles and responsibilities, including for environmental and social management.
3. External advisers, their roles, and the terms of their appointment, including any vacancies and/or risks to the effectiveness of the structure, and how these are being managed; and the terms of reference put in place.
4. Stakeholders' engagement plan.
5. Change management strategy.
6. Benefits realization plan.
7. Project evaluation process.
8. Sustainable development considerations any significant issues the project and executive/program boards need to be aware of, which could impact upon successful delivery of the project.

An advanced version of the components of the Management Case will be developed under the direction of the TCIAA Expert Project Manager, and subject to approval of this Business Case, will form part of the Formal/Final Business Case to be submitted for the final implementation stage, i.e. prior to commercial and financial closing.

5.1. Project Management Structure and Governance

Since the project is subject to the PPO and the PFMO, its governance and delivery management follow the established stages and procedures also setting the involvement of each stakeholder in the different stages of the project.

The **key bodies identified as essential for monitoring and ensuring the good governance of the project** include:

1. Governor: Its functions include approving the laws passed by the House of Assemble, authorizing PPP projects at pre-procurement stage, authorizing activities relating to the administration, control and management of airports to be carried out by such person or persons in place of the Airports Authority and, with the approval of the TCIAA, prescribing and regulating the conditions for use of any airport and its facilities including the charges to be made for use of the airport and for services or facilities.
2. Premier and Ministerial Cabinet: The Cabinet shall approve the awarding of any PPP contract. The involvement of the Cabinet will be key in the success of the Project.
3. The Ministry responsible for the TCIAA which at present is the Ministry of Immigration and Border Services: It is entitled to give general and lawful directions as to the policy to be followed by the TCIAA and the TCICAA in the performance of their functions, require the TCIAA the provision and maintenance of runways, taxiways, aprons, terminals and other services and facilities, including associated lighting fixtures, in consultation with the Governor, give the TCIAA regulatory powers with respect to customs, immigration, health and security and approve the implementation of a long-range plans for the development of airports by the TCIAA.
4. The Ministry of Finance, Trade, and Investments: It may have to be involved should a Government Guarantee be necessary or should the TCIG be a party to the Concession Agreement (e.g. in respect of compensation and termination payments).

5. The Attorney General's Chambers: It should provide its advice and promote the required legislative changes for the successful implementation of the PPP process.

6. Turks and Caicos Islands Airports Authority: that the redevelopment and operation of PLS Airport by a third party as contemplated under the Project, shall be subject to (i) the Governor's approval and (ii) a specific order. Pursuant to the Airports Authority Ordinance, this order will have to identify the activities (and related fees and charges) that will be carried out by the private partner and those that will remain in the TCIAA (e.g. the provision of air navigation services or air traffic control services).

7. The Turks and Caicos Islands Civil Aviation Authority: The TCICAA is the statutory body responsible for aviation regulatory oversight throughout the TCI and for aircraft registered on the Turks and Caicos Island Aircraft Registry. The TCICAA is comprised of various divisions that specifically regulate and license aerodromes, aviation personnel, aircraft maintenance organisations, and conduct aircraft airworthiness surveys. Coordination with the TCICAA will be key, especially with respect to the certification of the airport.

8. The Procurement Board: The Procurement Board consists of: (1) a Chairperson, appointed by the Governor in Council to hold office at the pleasure of the Governor; (2) six (6) officers drawn from across government appointed by the Deputy Governor to hold office at the pleasure of the Deputy Governor; (3) the Permanent Secretary, Finance; and (4) the Director of Contracts. It is responsible for (a) awarding contracts, (b) approving invitation to tender documents, (c) approving procurement procedures, and (d) approving contract documentation and any amendment to an awarded contract.

The role that each agency plays in the delivery of a good governance framework are discussed at Annex 1.6.

Due to the particular purpose of the project, **a dedicated Project Steering/Advisory Committee has been created**. The role of the Committee is to help to steer the project from inception through to completion. It receives and evaluates the advice given by the Project Consultants and in return, advises the Project Management Team to ensure delivery of the project outputs and the achievement of project outcomes. In function, it ultimately provides support and oversight of the Project. The Committee is comprised of representatives throughout various public agencies and private stakeholders. Terms of Reference for the Committee are provided at Annex 8.

- The Premier of the Turks and Caicos Islands
- The Cabinet Minister Responsible for the Turks and Caicos Islands Airports Authority
- The Attorney General or appointed representative
- The Chairman for the Turks and Caicos Islands Airports Authority
- The CEO for the Turks and Caicos Islands Airports Authority

- Representative from the Ministry of Finance, Trade and Investment [Currently the Permanent Secretary and Director of Contracts]
- Representative from the Turks and Caicos Islands Investment Agency
- Representative from the Ministry of Physical Planning, Infrastructure, and Public Works
- The Director for the Turks and Caicos Islands Ports Authority
- A Representative from Hotel/Tourism Development Community
- A Representative from an International Airline and a Representative from a Local Airline
- A Representative from the Local Business Community/Chambers of Commerce

The Project Management team (Project Implementation Unit) is the key entity driving the delivery of the project. The team was provisionally formed during initial stages of the project (i.e. during PPP Identification) and is comprised of officers from the Turks and Caicos Islands Airports Authority. Subject to permission to proceed with the PPP option proposed in this project, the Project Team has undergone a technical revision to include the recruitment of an expert Project Manager prior to the commencement of the pre-qualifications process, will report its work to the Steering/Advisory

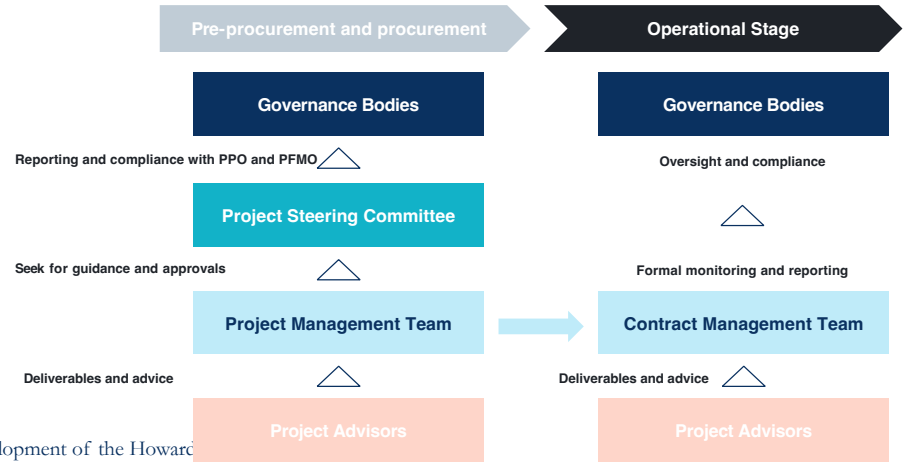
Committee, and will remain together at least until technical close of the PPP procurement. Team members are located within the Turks and Caicos Islands Airports Authority's Offices in Providenciales. Members of **the Project Team may continue on to form part of the Contract Management Team during the operational life of the PPP.**

The TCIAA has appointed a Project Manager to oversee and take responsibility for the project. The Terms of Reference and sample Job Description for the Project Manager were provided at Annex 10. The Project Manager will chair the Project Management Team and will provide a monthly progress brief to the Steering/Advisory Committee. At present the Steering/Advisory Committee meets fortnightly in a combined meeting with the Project Management Team. During the next stage of the project the Steering Committee's meetings will adjust to being monthly meetings, while the Project Management Team will continue to meet fortnightly to provide the requisite ongoing project management coordination and oversight. The Project Team's role includes:

- Overall project management, ensuring the process is delivered according to schedule and containing costs.
- Engaging advisors, including determining their terms of reference where necessary, managing advisors to ensure they deliver, and assessing their services.
- Championing the project and submitting applications for approval.

Except for the presence of the anticipated 'expert' Project Manager, members of the Authority's internal Projects Management Team also will include two project officers of the Authority, a Director from the TCIAA Board of Directors' Infrastructure Committee, the Deputy CEO – Operations, the Financial Controller for the Authority, the in-house Legal Counsel for the Authority, the Director for Safety and Security for the Authority, a representative from the Department of Planning and Infrastructure, and a representative from the Attorney General's Chambers.

Figure 49. Project governance structure



In addition to the above committees, TCIG, TCIAA and the Consultant conducted a series of stakeholder meetings during the consultant's first site visit from 23rd to 26th May 2022. A copy of the Agenda and the various groups met with are detailed in Annex 9 of this document. From 18th to 22nd July a series of workshops were held with the project's Steering/Advisory Committee, and on 21st July 2022, a public stakeholder forum was held by the TCIAA whereby the Consultant was able to present its findings from its feasibility assessment and outline its initial recommendation for the redevelopment project. The forum was held both in person and live-streamed via the internet. Attendees were allowed to ask questions and make recommendations based on their practical experiences with the current asset and market. A copy of the Agenda for the July 2022 workshops and public stakeholder engagement is provided at Annex 10.

The TCIG and TCIAA continue to provide the public with updates on the redevelopment programme and all assessment materials are readily available upon request. The TCIAA is currently redeveloping its website, anticipated for a mid-January 2023, launch, on which all materials collated and published in this programme will be published for public viewing. Further consultations with the public are anticipated upon approval received to proceed with the procurement exercise.

5.2. Use of advisers

The Project Board has recruited a team of technical advisers with comprehensive experience of PPPs in the airport sector including technical, financial, legal, and environmental expertise. The General Attorney is also providing specialist input and supporting collaboration and knowledge transfer required for the implementation of the legislative adjustments required.

Expert advisors used to bolster capacity in developing the project

When selecting an advisory and transaction consultant the following criteria were applied to the procurement: The members of the team were expected to have qualifications, skills, and experience to effectively fulfil the scope of work, the evaluation of the Consultant was based on the expertise and years of relevant experience in similar airport transactions of the team proposed for this project:

- Project Manager: Professional with a degree in economics or engineering (airport, civil, industrial, aeronautical). Must have a master's degree or post-graduate degree:
- PPP Specialist: Professional with a degree in economics or engineering (airport, civil, industrial, aeronautical). Must have a master's degree or postgraduate degree;
- Airport Engineering Specialist: Professional with a degree in economics or engineering (airport, civil, industrial, aeronautical). Must have a master's degree or post-graduate degree;
- Air Transport Market Specialist: Professional with a degree in economics or engineering (airports, civil, industrial, aeronautical). Must have a master's degree or postgraduate degree;
- Specialist in Environmental and Social Aspects: University degree at bachelor's or engineering level or in environmental sciences. Master or postgraduate degree in related areas;
- Financial Modelling Specialist: Professional with a degree in economics or business administration. Must have a master's degree or postgraduate degree; and
- Director of Legal Counsel: A professional with a bachelor's degree or its equivalent in other countries in legal sciences, a master's or postgraduate degree in areas related to consulting and the airport sector.

ALG was selected as the preferred bidder in the procurement exercise, possessing a talented and dynamic team with more than 50 transactions worldwide over the last 5 years, including more than 200 airport system strategies, transactions, PPPs, business development, and operational transformation.

To this end, ALG was recognized during the evaluation process as a consultant, as a leading global consulting firm focused on transportation, infrastructure, and logistics, and with extensive experience in the aviation market. ALG's experience has been complemented on the legal and environmental aspects of the PPP process by international specialised firms on these fields (GIDE Loyrette Nouel and the Associate Penelope Latorre respectively)

- ALG Transportation and Infrastructure Advisors PLC: contracted by the TCIAA as expert feasibility and transaction consultants to assist the TCIAA in conducting technical, legal, environmental, and financial assessments of the Airport to:
  - define an appropriate scope, structure and risk allocation for the Public Private Partnership (PPP) or Public Finance Initiative (PFI) transaction through the required technical and legal studies to ensure maximum value for the use of public resources for the modernization and operation of the airport;
  - develop a comprehensive Invitation to Tender for the tendering process;
  - conduct a transparent tendering procedure to attract a private investor to finance, design, expand, operate and maintain the airport; and
  - lead in the implementation of the PPP.
- GIDE Loyrette Nouel: A multi-national law-firm third-party contracted by ALG to assist with its advisory role concerning the required legal assessments and recommendations and to offer further guidance in the development of contract terms for the PPP.

- Penelope Latorre – Environmental Specialist - for environmental aspects as a widely recognised E&S advisor with specialist knowledge of E&S support for infrastructure projects, including aviation, roads, rail and ports. She is known for excellence of service and has been retained as trusted advisor by a large number of clients, such as infrastructure operators, infrastructure funds, institutional investors and development banks (including World Bank and EBRD).

Additionally, the advice from other specialists in particular aspects required for the implementation of the PPP has been requested:

- ASHURST: A multinational law firm based in the United Kingdom contracted by the Attorney General's Chambers to review and advise the Government on the modifications needed to its procurement laws and to assist with developing a PPP legal framework conducive to the successful delivery of the current and future PPP projects.
- Baker Tilly: The Turks and Caicos branch of this international public accounting and consulting firm has been retained by the TCIAA to perform an independent appraisal into the soundness of TCIAA's treatment of the asset and figures considered in the development of the Project.
- HLB Bahamas to perform an additional appraisal on the PPP Financial Model.
- Gregory Hill, Managing Director of ANSA Merchant Bank: With whom the TCIAA has formed an informal advisory relationship with and who continues to offer independent and mediatory insight into the proposed financial structure of the Project.

To further assist with the internal management of the programme during and beyond the consultancy exercise, the TCIAA has hired as part of its team an international expert Project Manager, specializing in PPP project planning and delivery management. A copy of the Terms of Reference for the Project Manager is provided in Annex 10.

The TCIAA has made provision in the sum of USD 1 Million rising to USD 1.5 Million to cover advisor costs included in the financial model as set-up, pre-operation and transaction structuring costs.

Intermediate Infrastructure Business Case for the Redevelopment of the Howard Hamilton International Airport

5.3. Project plan and Assurance & approvals plan

5.3.1. Project Plan

The key milestones for the project are subject to the required administrative approvals and timings set by internal formal procedures and are presented as follows:

May, 2023

- **Early May**: Intermediate Business Case Submission for FCDO Approval
- **End of May: Cabinet Appraisal**
- House of Assembly Appraisal
- Issuance of the Information Memorandum

June, 2023

- **Mid June:** Issuance of the **Request for Qualification (RfQ)** and Q&As opening
- **End of June: Deadline** for receiving questions to RfQ

July, 2023

- **End of July:** Qualification Documentation submission of interest bidders

August, 2023

- **Early August: Selection and announcement of prequalified bidders**
- **End of August:** Issuance of the **Request for Proposals (RfP) and Draft Concession Agreement**
  Data Room available for prequalified bidders, site visits and bidders conference

September, 2023

- **Early September:** Deadline for receiving questions to RfP
- **End of September: Bid submission**

October, 2023

- **End of October: Announcement of preferred bidder and start of the Negotiation Phase**

Figure 50. Indicative Project Plan

The detailed realistic timeline for financial close, taking into account all approval stages and known risks, and allowing contingency for unforeseen delays will be developed by the Expert Project Manager once the formal approval to proceed with the procurement is granted.

An advanced project plan will be developed under the direction of the TCIAA Expert Project Manager and subject to approval of this Business Case, will form part of the Formal/Final Business Case to be submitted for the final implementation stage, i.e. prior to commercial and financial closing. Under the leadership of the Project Manager, the Project Team will further be required to develop a post-Financial Close implementation programme, which will include handover and commissioning, and will be used to coordinate the construction of the new Airport.

The Advanced Project Plan will be subjected to the following approvals before proceeding along each phase of the project:

1. TCIAA Board of Directors Approvals;
2. Steering Committee Approvals; and
3. Ministerial Cabinet Approvals.

The project plan will also include advanced details for stakeholder and change management arrangements. In summary, the aim is for stakeholder engagement to be effective and high-level via an approach which:

- Identifies and classifies key stakeholders in terms of influence and importance.
- Develops an effective communications plan – identifying the key messages relevant to specific stakeholder groups at different stages of project development and putting in place a practical plan to engage and communicate with these groups. It is imperative for TCIG and TCIAA that communications build confidence and support for the project and that there is a clear understanding that the asset remains the owned and ultimately controlled by the Turks and Caicos Islands Government.

- Regularly reviews the strategy and stakeholder engagement outcomes to maintain oversight of delivery risks and any required project modifications.

5.3.2. Assurance and Approvals Plan

Since the project is subject to the PPO and the PFMO, Assurance and Approval of formal milestones are led by the administrative paths set on the Ordinances. The sequence of events, highlighting the main events for assurance and approval of the project includes:

Programme Phase

1. **Approval of the Business Case:** the first milestone and approval is the acceptance of the Business Case in order to move forward with the pre-procurement stage and preparation of Draft Contract and Tender documents.

Project Delivery

1. **Pre-procurement activities:** elaboration of the Draft Contract, update of the Information Memorandum, preparation of Tender materials and presentation of the Communications Plan for approval.
2. **Approval of the procurement documents:** approval of the final version of the procurement documents and launch of the procurement process.
3. **Procurement phase**: launch of the procurement process according to the PPO, established timeframes and its procedures.
4. **Selection of the preferred bidder:** assurance of the compliance with the established evaluation criteria and procurement process, and approval of the outcomes of the evaluation process.
5. **Negotiation of contractual conditions and elaboration of the Final Business Case** (review of economic and financial premises and results), including assurance of the inputs, methodology and results of the Final Business Case prior to the formalization of the concession contract.

Service Delivery

1. **Signature of the contract**, kicking-off the Service Delivery phase and Contract Monitoring.

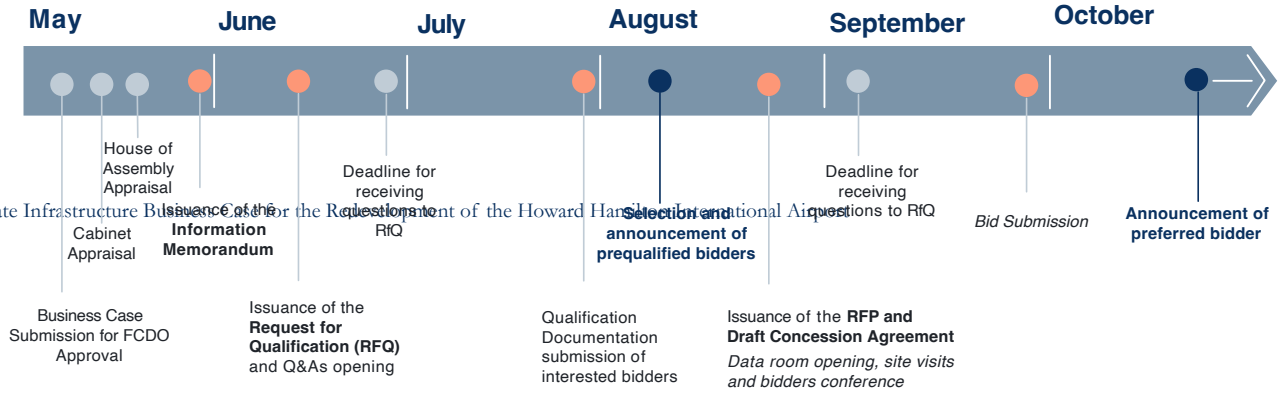


Figure 51. Project Assurance and Approval Plan

Alongside these formal approval points a series of assurance reviews have been implemented – designed to provide impartial assurance to the Project Team that the project has reached sufficient stage of maturity to proceed to the next stage. The estimated project plan up to Service Delivery stage has been presented in the previous section.

5.4. Project delivery budget

The estimated project delivery costs (and their associated activities) are part of the Financial Model and are included on the Public Sector Cash Flows as expenses accounting for USD 1 million subject to be increased to USD 1.5 million. The scope of services included in this budget includes:

- The project team and external advisers.
- The estimated costs of the legislative modifications required.
- Any other project-related costs incurred up to date.

In addition, the costs associated with the hiring of the Expert Project Manager are also considered with its corresponding budgetary allocation within the TCIAA. Details on the ToR for the recruiting of this profile are included in Annex 10.

5.5. Stakeholder engagement plan

Project stakeholders have been classified in four main groups:

1. **General Public:** general citizens and residents of the Turks and Caicos Islands, passenger/users of the Howard Hamilton International Airport and the Turks and Caicos Island's airport network.
2. **Internal: groups** or individuals working for the TCIAA or within the Ministry of Border Services; the Ministry of Transportation; Airport Vendors, Airlines
3. **Core:** Governor's Office, Cabinet, Ministry of Finance, the Department of Planning and Physical Infrastructure, the Civil Aviation Authority.
4. **Influential:** Turks and Caicos Islands Hotel and Tourism Association, Chambers of Commerce, neighbouring property owners, emergency services

Communications plan

The detailed Communication Plan will be developed and led by the Expert Project Manager and will include the following activities:

1. Identification of all social and/or commercial groups who: may be affected negatively by the project if their interests and concerns are not identified and addressed; and could be affected positively by the project if ways to benefit them are built into the future contract by the authority (for example, through the key performance indicators).
2. Draft an initial stakeholder engagement plan that shows the preliminary thinking on how the identified groups will be communicated and consulted with.

3. Undertake early stakeholder engagement and identify risks and opportunities to different groups.

The following elements outline the degree of stakeholder engagement and input in the programme as at the date of submission:

(a) TCIG received in Cabinet at least six unsolicited bid presentations from reputable private investors for the redevelopment of the Airport, confirming investor appetite for the project.

(b) TCIG and TCIAA together agreed to the project and its deliverables via a consultancy exercise. ALG was contracted by the TCIAA in May 2022 to direct the consultancy.

(c) An initial Advisory/Steering Committee was established in December 2021 and was later refined as the project developed to include more stakeholders as deemed appropriate to engage with the consultants throughout the programme and to ultimately advise TCIG and TCIAA on the feasibility of the project and the investment modality preferred. The Committee is headed by the Premier and managed by the TCIAA. Its membership comprises representation from the following stakeholder groups providing their independent inputs on a consultive basis with no further implication on the project, which is carried out independently led by the TCIAA and its engaged advisors:

i. The Premier's Office

ii. The Minister of Immigration and Border Control

iii. The Ministry of Immigration and Border Control

iv. The Ministry of Finance, Trade and Investment

v. The Ministry of Physical Planning and Public Works

vi. The Department of Environment and Coastal Resources

vii. The Attorney General's Chambers

viii. The TCIAA Board of Directors and Management Team

ix. The Turks and Caicos Islands Ports Authority

x. International Airline Carriers

xi. Domestic Airline Carriers

xii. Local Hotel, Investor and Development Community

The Advisory/Steering Committee has engaged in workshops with the consultants and meets fortnightly to review and monitor the programme's progress.

The main communication channels and means that will be made available for the purpose of successfully conveying project objectives to the different stakeholder groups previously identified include:

1. **Recruitment of professional media/press officer for the TCIAA** (in progress) to act as main press and public liaison concerning the project and its development.
2. **Fortnightly and Monthly Meetings with Immediate Decision Makers: This** forms the consent protocol channel whereby the meetings, briefings, workshops, etc. are routinely held and all documents are shared on a cloud based storage drive allowing all required persons to have access to materials so that decision making process can be informed.
3. **Public and Industry Stakeholder Forums** were successful in providing the interested public all of the necessary information about the project, receiving feedback, concerns, suggestions, in a live setting, responding to questions, and testing overall public sentiment and support for the project. These forums will continue to be a vital resource to the public.
4. **Press Releases to the local Press** and Publication of updates and materials on TCIAA Website and Social Media Pages.
5. **Road Show:** Contemplated as part of the marketing campaign to potential bidders.

5.6. Change management strategy and plan

5.6.1. Change management plan

A change management strategy will be developed once the basis of the Business Case are approved and will be conducted through a series of Successful Delivery Workshops, the development of which will be spearheaded by the Project Manager. The Strategy will be owned by the Project Management Team and will be reviewed at every Project Meeting.

Changes to the proposed scheme could be externally imposed (such as legislative or regulatory changes or changes to stakeholder expectations) or they may be internal (such as governance, organisation, or management arrangements). They could also include changes that may result from the business case process itself, the funding or procurement strategy to be used, changes to the scope of the redevelopment, Private Partner capability and overall performance of the resulting scheme, or changes to the costs or risk profile.

The standard process for change control in line with Project Management Principles set by the Project Management Institute involves eight stages:

1. Identification of the change and its author/requesting entity.
2. Processing the change request and registering on the change log.
3. Making an initial evaluation of the change, including its potential impact across the different project dimensions.
4. Following up with a detailed evaluation if needed with inputs gathered from the key stakeholders involved/affected by the potential impacts of the change.
5. Building a fact-based recommendation for the change to be accepted, rejected, or deferred.
6. Decision-making by the competent body for the implementation of the proposed change.
7. If the proposed change is accepted, the elaboration of dedicated implementation plans, and update of project documentation is required.
8. Change implementation by the responsible party.

Clear provisions should be made in the project contract with respect to change management for any of the conditions and clauses set forth in the final contract, including the change request and dispute resolution mechanism processes.

A change control process will be developed to ensure that all changes made to a scheme's baseline scope, time, cost, and quality objectives or agreed scheme benefits are clearly defined and evaluated. The initial change request is normally made to the Project Manager for review and evaluation. Thereafter, a person/or persons with the requisite authority will either approve, reject, or defer such change.

Similar development will also occur in relation to the Management Change Plan, Implementation Plan, Management Plan, and Concession Hand-Back strategy. The development of these plans will occur under the Direction of the Project Manager working with the Project team. These Plans will form part of the Final Business Case for the project as at the current stage, permission to proceed with further exploring the project is being sought before further investing in the expert resources (both human and material resources) to facilitate the implementation of the Project.

5.6.2. Planned Change Management

The change management plan is conceived as a living resource, which is planned for when Final Business Case approval is achieved. It will explain to stakeholders in detail the specifications of the project are and how current development of the tourism sector can be boosted by the redevelopment of the airport.

These and similar changes on the current infrastructure and its impact on the actual conditions of the tourism and accessibility to the island that will have to be dealt with, and the relevant actions to ensure the success of the project will be tackled by the Change Management Plan, led by the Expert Project Manager and updated as the inputs and received from the different stakeholders following the Change Management process defined in the previous section.

The detailed development of the Implementation Management Plan, Concession Hand-back Strategy and Contract Management will occur under the Direction of the Project Manager working with the Project team and will be presented for approval under the Final Business Case. Nevertheless, initial provisions and spirit of these components of the Management Case have been set out for the use and guidance of the Project Manager.

5.6.3. Implementation/Service Delivery Management Plan

Once the preferred bidder has been selected, the Final Business Case has been approved and the contractual negotiations have been finalized, the main challenge will be the start of operations by the new concessionaire. Typically, airport PPP projects include transition periods defined by the Concession Contract in which detailed responsibilities and obligations are set for the parties to ensure the proper transition and take-over of the operations by the Private Partner.

For such purposes, it is common practice to request the Private Partner, either contractually defined or as part of their bid proposal, the initial conditions for the transition and a proposed transition plan and hand-over of the operations from the Private Sector. This plan should be built in consensus with the Public Sector (current operator) and include:

- How will the hand over to the Concessionaire take place (timeline, responsibilities and staged absorption of obligations and rights).
- How and when will the transfer of any existing infrastructure will occur.
- How the land and ownership considerations (if applicable) will be managed altogether with other retained risks or obligations.
- How will interfaces and relation with the Private Partner be structured (including approvals and conflict resolution).
- How will the hand-back of the assets occur after finishing the concession.

These, amongst other implementation challenges will be dealt contractually setting a clear and visible path for the entire concession period.

5.6.4. Concession Hand-Back

One of the key milestones in PPPs under DBFOM models is the point at which the concession ends and the project will have to be handed back to a successor organization (i.e. the new concessionaire) or return back to the Public Sector. A clear timeline of events will be contractually set as international best practice, setting out the process and the trigger points for the hand-back. The plan shall contain sufficient detail to allow the successor organisation to receive the operational and infrastructure assets and maintain operations without disrupting the services.

The Concessionaire will be required to return the assets in a condition consistent with the implementation of the Maintenance Plans and standards normally applicable to the operation and maintenance of the airport during the Concession.

Staff and knowledge transfer are common key challenges and, therefore, explicit requirements in this regard shall be made in the Concession contract, ensuring that key staff is retained during the critical transition periods to ensure business continuity.

A similar approach shall be put in place regarding transfer of information and documents related to the scope of the project (design, built, financing, operation and maintenance of the infrastructure) during each transition period as requested by the Grantor.

5.6.5. Contract Management

Contract monitoring procedures and requirements shall be contractually established, including scope, format, frequency, channels, roles, and responsibilities along the different phases of the project (construction, operation, maintenance, etc.). These tasks will be led by the Contract Project Manager and reported to the Project Steering Committee and/or relevant authorities.

In addition, specific internal Contract Monitoring initiatives could be established such as:

1. Monthly reporting during the service period.
2. Regular meetings to address the compliance of the Concessionaire/Private Partner in the different aspects of the Concession Contract (construction advance, level of service, financial performance, etc.).
3. Monographic forums for the assessment of critical elements or changes requested.

The Contract Monitoring and Management is considered a key element for the continuous improvement of the Project and the first source of direct information for the elaboration of Lessons Learned and know-how for the Public Sector.

5.6.6. Service Change

Detailed provisions shall be set in the Project Contract to ensure that any required service changes, both from the Private and Public Partners or from internal/external causes, which may inevitably be necessary over the life of the project, can be dealt with and priced on a basis that will ensure value for money for the Public Sector without jeopardizing the economic equilibrium for the Private Partner.

These provisions shall include Service Change request procedure, Change Management process, define clear roles and attributions for evaluation and approval of the Change Request and dispute resolution in case an agreement cannot be achieved under the rules and timelines established for the Service Change events.

5.7. Benefits realisation plan & Risk management strategy and plan

Benefits Realisation Strategy and Plans, including Evaluation Plans are already partly developed and discussed in the Due Diligence Report at Annex 1.

However, the Project Team will review and further refine and/or develop advanced plans during the next phase of the Project and present them such advances strategy and plans part of the Final Business Case. The Project Team will lead the preparation of a Strategy and Plan that categorises and prioritises the potential of the project. This includes detailing how a local monitoring will be established, what the performance indicators will be, and how such plans support general direction of the project.

5.7.1. Benefits Realisation Strategy and Plan

The benefits strategy aims at categorizing and prioritizing the potential benefits of the project. Quantitative benefits can be monitored, however, due to the complexity of the project and number of variables involved, any change in the actual operation and execution of the project is subject to generate deviations on the expected benefits. Nevertheless, the fact that acid sensitivity analysis has been carried out, provides robustness on the feasible realisation of the expected benefits.

The benefit realisation strategy provides the Project Team with a clear roadmap of the monitoring, steering and action levers to materialize the expected benefits in line with the projected outcomes of the project.

The Benefit Realisation Strategy will be further refined by the Project Manager during the Procurement Phase and presented as part of the Final Business Case, gathering inputs from the selected Private Partner to enrich and fully aligned expected benefits with the actual feasibility carried out by the selected bidder.

A preliminary Benefits register has been developed for the project by the advisors in coordination with the Project Team. This initial register will be further developed and refined by the Project Manager and the inputs received from the Private Partner after the elaboration of the Final Business Case. It defines:

- Benefit description in line with the Strategic and Economic cases
- Expected realisation date and measurement KPIs
- Responsible for the delivery and management of these benefits
- Stakeholders involved
- Review process
- Associated Risks

Description	Realisation date	Measurement KPIs	Delivery Responsible	Stakeholders Involved	Periodicity for evaluation	Associated Risks

Table 8. Benefits register

The required 'Carbon Optimisation Plan' based on the carbon calculations of the activity will be required to the Private Partner as part of the Final Business Case in line to their own assumptions for demand, airport activity, energy provision strategy and final design and construction strategy.

Intermediate Infrastructure Business Case for the Redevelopment of the Howard Hamilton International Airport

5.7.2. Risk Management Strategy and Plan

A detailed risk matrix has been developed as part of the project, including risks of delivery of the business case. The entire range of social, environmental and climate related risks have also been addressed in the Climate, Social and Environmental Due Diligence carried out by ALG and their Associate Penelope Latorre that can be found on Annex 1.3.

In relation to the risks of contract delivery, these should be developed once the proposed Business Case is approved on its final contractual format (PPP alternative under a DBFOM model) since each Contractual Scheme poses its particular risks. The detailed elaboration of the final risk registry and a comprehensive risk management plan will be in place to mitigate risks to the project. The risks will be further refined and mapped by the Expert Project Management and dedicated Risk Registries following the format established by the International Guidance will be developed.

Risk number
Risk type
Author (who raised the risk)
Date Identified
Date last updated
Description (of the risk)
Probability of occurrence
Interdependencies (between risks)
Estimated cost if the risk materialises
Party which will bear the risk contractually
Mitigations
Risk status (action status)
Risk owner (who is responsible for managing the risk)

Table 9. Risk Registry sample

The risk management process will also span along the evaluation and monitoring of risks that have materialised, allowing informed decisions about key project threats and challenges.

The comprehensive risk matrix for the project has been developed and presented in the previous sections of the current Business Case, it can be found on Annex 3 and will be subject to continuous update during Procurement and Project Delivery stages until contract signature.

Intermediate Infrastructure Business Case for the Redevelopment of the Howard Hamilton International Airport

Each risk is assessed in terms of impact and likelihood. A detailed mitigation and response plan, including relevant contingencies, will be prepared in the Final Business Case by the Project Manager. The current risk matrix allows for a transparent demonstration of those risks which, because of the contracting arrangements and clauses to be detailed on the final version of the Concession Contract, the Public Partner aims to transfer to the concessionaire and those which are likely to be retained.

5.8. Project evaluation plans

The Project Evaluation Plan will be carried out by the Project Manager during the Procurement Phase and will be an integral part both of the Final Business Case and the Final Contract since it will establish the requirements in terms of information, reporting format, periodicity, criteria, roles and responsibilities for the Project Evaluation Process.

The project Evaluation Plan will include a precise description of how the benefits of the project will be evaluated during and after its completion. This plan will serve for the purpose of improving the Grantor's and wider government's project delivery capability by identifying lessons to be learned from the project; and assessing if the project has delivered the expected benefits.

5.8.1. Evaluation

For the purpose of project evaluation, a dedicated set of KPIs will be contractually defined related to the different dimensions of the project: traffic, investment levels and degree of compliance, financials, level of service, passenger quality surveys, induced benefits, environmental impacts, etc. On the other hand, internal KPIs for the Public Sector should be defined so that they can serve to guide the strategic direction of related sectors: overall national transport network (specially air transport policies and developments) and touristic impacts.

Definition of these indicators will be led by the Project Manager in coordination with the Project Team and the advisors and will be part of the final Contract in other to establish the information requirements that will be requested to the Private Partner.

The monitoring of these KPIs will serve for the purpose of demonstrating the performance and effectiveness of the selected scheme to comply with the set of benefits set in this Business Case. It will also serve to drive future improvements in the airport sector. Monitoring during construction and operation phases, including compliance with the construction schedule, infrastructure availability, level of service and regulatory compliance will be covered by these indicators.

5.8.2. Management of Evaluation Process

When the Project transitions towards operations phase (once the most significant investment works have been completed) , the evaluation process should be adjusted, focusing the evaluation on operational, financial and socio-environmental KPIs. Reporting of these findings will be directed towards the local and national government, industry bodies and the general public. Appropriate publishing and information dissemination paths will be designed, including specific considerations with respect to information storage, transparency and sharing.

The Project Team has identified the relevance of the control of data collection, storage, distribution, and appropriate disposal of project information. In addition, it is important to control the use of project information in an appropriate format for the purposes of reporting, including formal reporting within the project organisation and governance structure and to project stakeholders.

Due to the nature of the Project, it will generate significant volumes of information. Appropriate processes are required to manage and communicate this data. Additionally, appropriate, timely and accurate information is required to facilitate informed decisions. To manage this information and reporting, robust procedures will be defined by the Project Team during the procurement phase to be included in the Contract covering the minimum requirements in terms of collection and storage, dissemination, reporting and disposal.

The commercial confidentiality aspect should also be covered and data protection principles should be applied where this is required by law. However, the relevance of financial and contractual transparency is considered a critical part of the tender procurement conditions which should specify that that contract documentation will be published at the end of the procurement, subject only to commercially sensitive information (which is expected to be minimal and predetermined in the bid phase) being withheld.

Additionally, following international best practices and obligations, some additional measures regarding basic information and documentation to be developed by the concessionaire have been preliminarily established and will be refined until the formalization of the Final Version of the Concession Contract, including (non-exhaustive):

1. The provision and maintenance, by the Private Partner, of the airport operations manual, safety management system, certifications and other relevant documents related to the operation of an airport facility.
2. Elaboration and maintenance, by the Private Partner, of books of account recording costs, revenues, and other payments.
3. Publication of audited annual financial reports in compliance with applicable financial and accounting principles.
4. Provision, on a periodic basis, of accrued and prospective Internal Rates of Return of the Private Party in order to address deviations over the contractual basis.
5. Publication of the contract documentation, except for those elements which were defined as confidential during the bid process.

5.9. Sustainable development objectives (environmental, climate, social)

A clear allocation of roles and responsibilities for sustainable development objectives should be carried out. Some of the key considerations for allocating roles and responsibilities for sustainable development in airport PPPs include the role of each key stakeholder and its responsibilities:

1. **Public Partner**: The public partner should be responsible for defining the sustainable development objectives and ensuring that they are integrated into the airport PPP. This should include setting targets for reducing the airport's carbon footprint, improving energy efficiency, and enhancing social and economic benefits for local communities. Additionally, Public entities responsible for the compliance with these goals should set the legislative provisions and monitoring procedures to evaluate and ensure compliance.
2. **Private Partner**: The private partner should be responsible for implementing the sustainable development objectives outlined by the Public Partner. This should include developing and implementing sustainability strategies and initiatives, such as reducing greenhouse gas emissions, conserving water, and promoting sustainable transportation. These initiatives should be implemented across the entire scope of services included on the Concession Contract spanning through the design, construction, financing, operation and maintenance activities undertaken.
3. **Sustainability Manager:** The airport PPP should have a dedicated sustainability manager who is responsible for overseeing the implementation of sustainability initiatives. Engagement of environmental and social specialists with sufficient skills and ability to monitor and evaluate the project impacts in the long-term should be engaged. Should the need to engage external advisors for these purposes, the Private Partner should be entitled to do so as part of its contractual obligation to comply with the sustainability objectives set out by the Public Partner. This should include monitoring progress against sustainability targets, identifying areas for improvement, and engaging with stakeholders to promote sustainable development.
4. **External Stakeholders:** Local communities, airlines, airport operators (handlers, commercial concessionaires, contractors), and government agencies are all important stakeholders in airport PPPs. They should be engaged in the development and implementation of sustainability initiatives and consulted on their impact. This can include community outreach programs, stakeholder workshops, and regular reporting on sustainability performance.

The airport PPP should have a clear reporting and accountability framework as part of the Contract Management component that outlines how sustainability performance will be measured and reported. This should include regular reporting on sustainability targets, progress, and challenges, as well as mechanisms for addressing any issues that arise.

6. Procurement process

6.1. Pre-procurement considerations

Overall, it is considered that the arrangements presented in this Management case represent a robust structure for managing the development of the project to a successful conclusion, in a way that ensures value for money is being achieved through the implementation of a project that addresses the business needs identified. Good management of the project guarantees the robustness of this business case and lays the ground for the project's successful implementation across its construction and operations phase, including the management of risks and realization of benefits.

Government approvals are required prior to the public launch of the prequalification process. The project requires various steps/approvals as set forth in the Public Procurement Ordinance and the Public Finance Management Ordinance:

1. **Functional Independency:** Independent accounting, legal, financial, economic, environmental, and other technical advice as appropriate shall be retained to ensure robust investment appraisals are produced. **This process is in progress near finalization.**
2. **"Sound Appraisal":** A demonstration of the improved value for money against a conventionally financed alternative shall be carried out by the appropriate technical experts (ALG/Gide) retained by the government. **This process has been part of ALG's assignment where a Value for Money and Cost-Benefit analysis have been carried out.**
3. **Prior approvals Secretary of State and the Governor and consultations with the Director of Contracts and the Permanent Secretary, Finance:** These approvals shall be obtained, and these consultations shall be organized prior to the public launch of the prequalification process.
4. **House of Assembly appraisal:** The project shall be suitably appraised by the House of Assembly "to ensure value for money and that a robust cost-benefit analysis has been carried out".

The Project will be procured by means of a pre-qualified tender under the Public Procurement Ordinance (PPO), but certain provisions of the principal Regulations need to be disapplied and/or clarified for the purposes of the Project:

- **Incompatibility of some provisions:** as an example, the 10-year limitation applicable to the contract period under section 50
- **Not full adequacy of other provisions:** rules regulating invitation to expression of interest and invitation to tender or the role of the procurement board

These considerations will be overcome by the Enactment of a new piece of legislation (PSL) – Project Specific Legislation.

Subject to the Attorney General's Chambers' comments, the provisions of the PSL would notably:

a. specify that the PPP contract with the private partner shall be entered into by both TCIAA and TCIG.

b. identify the activities that will be carried out by the private partner and those that will remain with TCIAA and TCIG.

c. define the applicable tender rules by reference to the bidding documents that will be specifically prepared for the.

d. Project, by express derogation from the Public Procurement Ordinance.

e. streamline the procurement process and bring aspects (e.g., electronic tendering) into line with international best practice.

f. specify that applicable aeronautical fees and charges as well as the rules regulating the revision and indexation thereof.

g. are to be set in the PPP contract.

h. clarify that the ownership of the Airport site shall remain vested in TCIAA.

i. should TCIG decide so, provide that the requirement for a development permission shall not apply to the Project.

The Prequalification could be launched without the PSL, but the PSL should come soon thereafter and before the tender stage.

6.2. Procurement process

It is proposed that the procurement of the Project will be by means of a pre-qualified tender under section 30(1)(b)(i) of the principal Regulations.

In this manner, the procurement is divided into two phases: pre-qualification and tender phase:

1. **Pre-Qualification:** there will be an open invitation from which a shortlist of pre-qualified entities will be selected to move to the invitation to tender phase, during which the restricted procedure under section 36 of the principal Regulations will be used.
2. **Tender phase:** It is envisaged that new Project Specific Legislation will be enacted prior to or during the invitation to tender phase to deal with certain requirements relating to the procurement of the Project

The process towards the RfQ, pre-qualification and preferred bidder selection is clearly streamlined and supporting materials ready as preliminary versions.

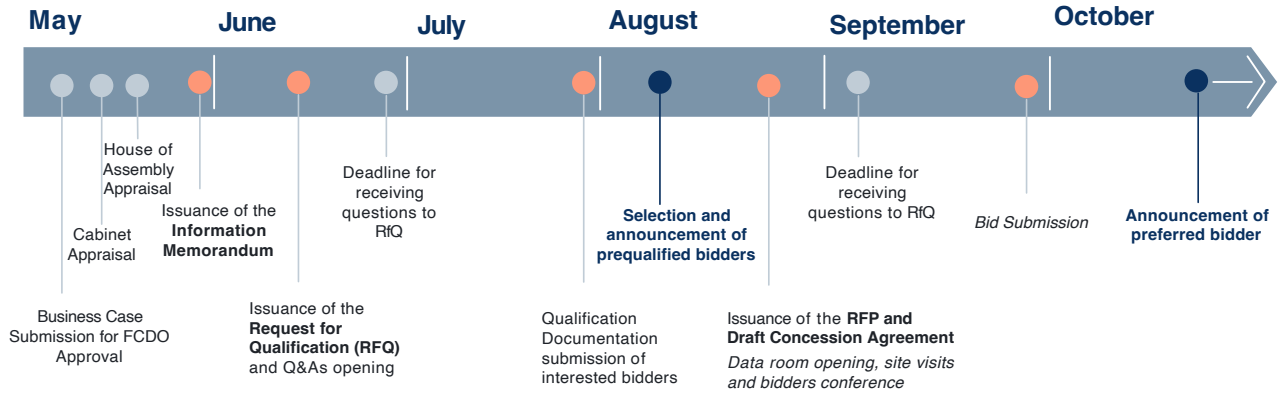


Figure 52. Procurement process stages and expected timeline

These dates are subject to the administrative approvals and internal procedures

Detailed flow of events and approvals for the procurement process

May, 2023

- **Early May**: Intermediate Business Case Submission for FCDO Approval
- **End of May: Cabinet Appraisal,** House of Assembly Appraisal, and Issuance of the Information Memorandum

June, 2023

- **Mid June:** Issuance of the **Request for Qualification (RfQ)** and Q&As opening
- **End of June: Deadline** for receiving questions to RfQ

July, 2023

- **End of July:** Qualification Documentation submission of interest bidders

August, 2023

- **Early August: Selection and announcement of prequalified bidders**
- **End of August:** Issuance of the **Request for Proposals (RfP) and Draft Concession Agreement**
  Data Room available for prequalified bidders, site visits and bidders conference

September, 2023

- **Early September:** Deadline for receiving questions to RfP
- **End of September: Bid submission**

October, 2023

End of October: Announcement of preferred bidder and start of the Negotiation Phase

7. Draft procurement documents and evaluation criteria

7.1. Draft procurement documents

The procurement process will be supported by a set of documents that will provide potential bidders with sufficient information to carry out their due diligence and present their best offers.

These documents will include, either on their respective Draft and Final versions, at least:

1. **Information Memorandum (IM):** it is the basic document gathering all the market, technical, financial, regulatory, and high-level contractual considerations of the project. It commonly outlines:
    a. Executive Summary: An overview of the airport PPP project and the key highlights of the IM.
    b. Introduction: A description of the project, its objectives, and the benefits that the PPP structure will provide.
    c. Project Overview: A detailed description of the airport PPP project, including the scope, location, and key features such as runway length, terminal capacity, cargo capacity, and other facilities.
    d. Market Analysis: An analysis of the market conditions for the airport PPP project, including passenger and cargo demand projections, competition, regulatory environment, and other relevant factors.
    e. Financial Analysis: A financial analysis of the airport PPP project, including the estimated cost of the project, the projected revenues, expenses, and profits over the life of the project, and the expected financial return estimates for the private sector partner.
    f. Risk Assessment: An assessment of the risks associated with the airport PPP project, including construction risks, demand risks, financial risks, and other relevant factors.
    g. Legal and Regulatory Framework: A high level overview of the legal and regulatory framework for the airport PPP project, including the relevant applicable laws and regulations, permits and licenses required, and other legal and regulatory considerations.
    h. Procurement Process: A description of the procurement process for the airport PPP project, including the timelines, evaluation criteria, and other relevant factors.
    i. Technical Specifications: Detailed technical specifications for the airport PPP project, including the design standards, construction requirements, and operational requirements, if applicable.
    j. Governance and Management: A description of the governance and management structure for the airport PPP project, including the roles and responsibilities of the private sector partner and the public counterpart.
    k. Appendices: Additional supporting documents, such as maps, technical drawings, financial projections, legal documents, and other relevant information.
2. **Bidders Engagement with the Authority/Grantor:** detailed engagement plan with potential bidders, establishing dates, milestones, and deadlines for the interaction with the Authority/Grantor along the procurement process. It will establish the authorized periods and channels for communication altogether with key focal points during the procurement process.
3. **Instructions to bidders (Pre-qualification and Tender Stage instructions):** pre-qualification and tender instructions for an international airport PPP tender typically include:
    a. Introduction: A brief description of the project, the tender process, and the purpose of the pre-qualification instructions.
    b. Eligibility criteria: The pre-qualification instructions will present the eligibility criteria for bidders, which typically include financial capacity, technical expertise, experience in similar projects, legal and regulatory compliance, and other relevant factors.

c. Qualification requirements: The instructions will outline the requirements that bidders must meet to be considered qualified for the tender process. These may include providing financial statements, references, certifications, and other documents.

d. Submission requirements: The instructions will specify the format, content, and deadline for submitting pre-qualification documents.

e. Evaluation process: The instructions will outline how the submitted pre-qualification documents will be evaluated and scored, including the criteria that will be used to assess bidders.

f. Contact information: The instructions will provide contact information for the procurement authority or tendering agency, including the address to which pre-qualification documents should be submitted and contact information for any questions or clarifications.

g. Confidentiality and non-disclosure: The instructions will specify any confidentiality or non-disclosure requirements related to the pre-qualification process and the information provided by bidders.

4. **Project Draft Contract / Head of Terms:** an initial version of the PPP Contract, its Head of Terms and clearly marked negotiable clauses shall be provided as part of the basic information package of the procurement process.

5. **Q&A Log:** a detailed Q&A Log will be facilitated to all bidders through electronic format to facilitate access, consolidating questions raised during the allowed period and the corresponding responses elaborated by the Authority/Grantor.

Preliminary versions of the Information Memorandum, the Head of Terms for the Draft Contract, Instructions to Bidders and principles for the Bidders Engagement are under development to be finalized ready upon approval of the launch of the procurement process.

7.2. Evaluation criteria

The evaluation criteria are also tailored to the pre-qualification and tender phases, including the following considerations:

1. **Pre-qualification stage:** interested bidders must meet a minimum solvency (eligibility, financial and technical) criterion to be short-listed for the tender phase. The evaluation criteria shall be weighed and based around the following aspects:

   a. **Eligibility criteria:** The prospective bidders must complete a *Pre-qualification Application* and present the documents which identify the legal entity (Representative Power of Attorney, and Constitutional Documents) as well as an affidavit confirming their legal eligibility.

   b. **Financial standing:** Audited financial statements and provision of proof of ability must be included in order to provide any guarantee or performance bond as required under the proposed contract.

   c. **Technical capability:** The technical capacity must include the proposer's ability to meet the specification, airport operation, safety management systems including human resources and maintenance systems appropriate to the performance of the proposed contract.

   Potential bidders are allowed to participate as a single Company or a Consortium. In the event of concurrence in a consortium, the eligibility criteria per member needs to be clearly identified and presented individually.

   Identity of Prospective Bidders (including the composition of any Consortium) shall be fixed with effect from the Pre-qualification Application Submission Deadline. No change in identity or composition (including any partnering arrangements) shall be permitted without the prior written approval of TCIAA (not to be unreasonably withheld).

   The Concession Agreement shall contain provisions on the Minimum Equity Shareholding. If the Prospective Bidder is a single Company, such single Company shall own one hundred percent (100%) of the equity of the Concessionaire.

   Prospective Bidders Members may include whose roles can be established by the Bidders, complying with the specific requirements established for each role:

- **Lead Member:** A Consortium shall include a Lead Member. The Lead Member shall represent and bind all Consortium Members in all matters relating to the Bid Process. The Lead Member shall fulfil the Financial Criteria (unless already fulfilled by Local Member).
- **Airport Operator Member:** A Consortium shall include an Airport Operator Member. The Airport Operator Member shall fulfil the Technical Criterion 1 & Criterion 2 (as per the definitions below). The Airport Operator Member may also be the Lead Member.
- **Local Member:** A Consortium shall include a Local Member. The Local Member shall fulfil Financial Criteria (unless already fulfilled by Lead Member) and Technical Criterion 3. The Local Member can also be the Lead Member

Technical Criteria to be met by the Airport Operator and/or the Local Member

1. **Technical Criterion 1:** The Prospective Bidder, or, if the Prospective Bidder is a Consortium, the Airport Operator Member, shall demonstrate that it currently operates, on a stand-alone basis, or as part of a joint venture or consortium, or that one of its Affiliates operates, on an active basis (landside and airside) at least **one (1) international airport of no less than 2 million passengers per year in the last 5 years.**

   The Prospective Bidder, or if the Prospective Bidder is a Consortium, the Airport Operator Member, or their Affiliates as the case may be, must further demonstrate that it possesses no less than twenty percent (20%) of the equity of the entity operating such international airport.

2. **Technical Criterion 2:** The Prospective Bidder, or, if the Prospective Bidder is a Consortium, the Airport Operator Member, shall demonstrate that it, any of its Non-Sister Affiliates or any of its Major Shareholding Affiliates has experience in the planning, design, bidding process, contracting and supervision of the construction of large projects in operational airports specifically during the past 10 years with an aggregate construction value of not less than USD 150 million, allocated among a maximum of 2 airports.

3. **Technical Criterion 3:** The Prospective Bidder, or, if the Prospective Bidder is a Consortium, the Local Member, shall demonstrate that it, any of its Non-Sister Affiliates or any of its Major Shareholding Affiliates has experience in the planning, design, bidding process, contracting and supervision of the construction of large projects Turks and Caicos Islands during the past 10 years with **an aggregate construction value of not less than USD 100 million, allocated among a maximum of 2 assets.**

Financial Criteria to be met by the Lead or Local Member

1. **Financial Criterion 1:** The Prospective Bidder, or, if the Prospective Bidder is a Consortium, the Local Member or the Lead Member, shall demonstrate that it had **Net Worth of at least USD 300 million** or equivalent at all times during its last 3 fiscal years. For the purposes of this Financial Criterion n°1, the Prospective Bidder, or, if the Prospective Bidder is a Consortium, the Lead Member or the Local Member, may consolidate its Net Worth with the Net Worth of a Company which Controls such Prospective Bidder (or, if the Prospective Bidder is a Consortium, such Lead Member or Local Member).

2. **Financial Criterion 2:** The Prospective Bidder, or, if the Prospective Bidder is a Consortium, the Lead Member or the Local Member, shall demonstrate that it, any of its Non-Sister Affiliates or any of its Major Shareholding Affiliates has **the ability to fund/finance the Project** through debt and/or equity financing **raised for one or more infrastructure projects in the past 10 years that total in aggregate at least USD 300 million, containing, at least, an individual project equal to or greater than 50 MUSD.**

   The Prospective Bidder, or, if the Prospective Bidder is a Consortium, the Member of the Consortium complying with Financial Criterion n°2 should have no less than 50% of the equity of Concessionaire.

3. **Additional requirements:** the Prospective Bidder shall demonstrate the ability to provide a guarantee or a performance bond

The maximum number of Consortium Members will be established by the procurement documents. Preliminarily, a Consortium shall not be comprised of more than four (4) / five (5) Consortium Members.

In the event of concurrence in a consortium, the member(s) who do not prove compliance with any of the technical/ financial solvency requirements will see their participation in the consortium limited to a maximum 20%.

2. **Tender Stage:** the preferred bidder is to be selected according to the methodology established by the grantor. Two potential evaluation methodologies have been developed for evaluation and final decision to be made by the Grantor after approval for the launch of the procurement process.

    a. **Pass-fail methodology:** Technical proposals are evaluated and scored. Proposals that achieve a minimum score will be evaluated as a pass, with the rest being failed. Only bidders that meet the technical threshold score will proceed to the financial evaluation. Financial proposals based on the bidding criteria established (the initially proposed bidding criteria is the concession fee as percentage of total revenues) are opened, the winning bidder is selected based on the best financial offer.

    The final selection is based on the best financial offer.

    b. **Weighted scoring methodology:** Technical proposals are first evaluated and scored to determine those that meet the minimum passing score. Bidders that pass the technical evaluation proceed to the financial evaluation, with the technical score being assigned a specific weight. The financial proposals (the initially proposed bidding criteria is the concession fee as percentage of total revenues) are opened and based on the financial offer; each bidder will get a specific weight on the financial bid.

    The winning bidder is selected based on the weighted combination of the technical and financial scores.

At this stage, the weighted scoring methodology is the preferred methodology for the selection of the preferred bidder.

The pros and cons of each of the evaluation methodologies have been evaluated in order to allow the Grantor to establish the mechanism that best fits its main objectives:

1. Pass-fail methodology	2. Weighted scoring methodology
Pros	
– Final selection based on the best financial offer, which is easier and more transparent. – Seeks to deliver the highest financial benefit. – Relies less heavily on subjective judgment by the bid evaluation team to score if bids have achieved the minimum passing technical score.	– Final selection based on the best combined offer of technical and financial bid proposals. – Seeks to achieve the optimal combination of technical merits and financial benefits to deliver value for money.
Cons	
– Does not assign relative value to the technical merits of the proposal once it has achieved a passing technical score. – Does not differentiate between the technical strength of each bid once it has passed the technical evaluation.	– The winning bid may not necessarily be the highest financial offer. – Relies more heavily on subjective judgment not just to pass or fail, but to score precisely as it impacts the final selection. – Opens the Grantor up to appeals by bidders on the technical score attributed to them depending on swing factor of the technical component and subjectivity in scoring.

Figure 53. Evaluation of selection mechanism alternatives for the Preferred Bidder during Tender Stage