



CLARK INTERNATIONAL AIRPORT OPERATION & MAINTENANCE CONCESSION

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This Information Memorandum does not constitute a solicitation of bids for any aspect of the Project. Solicitations of bids and bidding guidelines shall be provided in the ITB.

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ACRONYMS

AIP	Aeronautical Information Publication
BCDA	Bases Conversion and Development Authority
BIR	Bureau of Internal Revenue
BLT	Build-Lease-Transfer
BOI	Board of Investments
BOO	Build-Own-Operate
BOT	Build-Operate-Transfer
BPO	Business Process Outsourcing
BSP	Bangko Sentral ng Pilipinas
BT	Build-Transfer
BTO	Build-Transfer-Operate
CAAP	Civil Aviation Authority of the Philippines
CAB	Civil Aeronautics Board
CAGR	Compound Annual Growth Rate
CAO	Contract-Add-Operate
CAR	Cordillera Administrative Region
CASS	CIA Support Services
CDC	Clark Development Corporation
CDS	Credit Default Swaps
CFZ	Clark Freeport Zone
CGC	Clark Green City
CIA	Construction Industry Arbitration
CIAC	Clark International Airport Corporation
CIAP	Construction Industry Association of the Philippines
CSEZ	Clark Special Economic Zone
DENR	Department of Environment and Natural Resources
DO	Department Order
DOT	Develop-Operate-Transfer
DOTr	Department of Transportation
ECC	Environmental Compliance Certificate
EIA	Environmental Impact Assessment
EO	Executive Order
EPC	Engineering, Procurement, and Construction
EWT	Expanded Withholding Tax
FCY	Foreign Currency
GCR	Greater Capital Region
GDP	Gross Domestic Product
GOP	Government of the Philippines
IAET	Improperly Accumulated Earnings Tax
IC	Independent Consultant
ICAO	International Civil Aviation Organization
IFC	International Finance Corporation
IRR	Implementing Rules and Regulations
IT	Information Technology
ITB	Instructions to Bidders
LCY	Local Currency
LGU	Local Government Unit

MCIA	Mactan-Cebu International Airport
MCIT	Minimum Corporate Income Tax
MOS	Manual of Standards
MPSS	Minimum Performance Standards and Specifications
MRO	Maintenance and Repair Operators
NAIA	Ninoy Aquino International Airport
NEDA	National Economic and Development Authority
NLEX	North Luzon Expressway
O&M	Operations and Maintenance
OFW	Overseas Filipino Workers
ORAT	Operational Readiness and Airport Transfer
OTS	Office of Transport Security
PAF	Philippine Airforce
PAL	Philippine Airlines
PCAB	Philippine Contractors Accreditation Board
PD	Presidential Decree
PDS	Philippine Dealing System
PHP	Philippine Pesos
PPP	Public-Private Partnership
PSE	Philippine Stock Exchange
PTB	Passenger Terminal Building
PTS	Preliminary Term Sheet
RA	Republic Act
RCIT	Regular Corporate Income Tax
REIT	Real Estate Investment Trus
ROO	Rehabilitate-Own-Operate
ROT	Rehabilitate-Operate-Transfer
SARP	Standards and Recommended Practices
SBAC	Special Bids and Awards Committee
SCTEX	Subic-Clark-Tarlac Expressway
SEC	Securities and Exchange Commission
TPLEX	Tarlac-Pangasinan-La Union Expressway
UNESCO	United National Educational, Scientific, and Cultural Organization
UPS	United Parcel Services
VAT	Value Added Tax
WTTC	World Travel and Tourism Council

EXECUTIVE SUMMARY

The Bases Conversion and Development Authority (BCDA) will bid out an Operation & Maintenance (O&M) Concession for the Clark International Airport (CIA), which will entail: (i) the management, operations, and maintenance of the Clark International Airport including the existing terminal; and, (ii) the completion, fit-out and management, operations, and maintenance of the New Terminal Building for Clark International Airport. The Engineering, Procurement and Construction (EPC) contract for the New Terminal Building was awarded in December 2017 to a consortium of Megawide Construction Corporation and GMR Infrastructure.

The upgrade and modernization of Clark International Airport is expected to augment the much needed airport capacity for the country's Greater Capital Region (comprising Metro Manila, Southern Tagalog and Central Luzon), which is primarily served by an already congested Ninoy Aquino International Airport (NAIA). CIA will likewise accommodate the growing traffic within its CIA's organic catchment area, i.e., North and Central Luzon.

BCDA intends to turn over the operations of the existing terminal airport to the O&M Concessionaire immediately after the execution of the O&M Concession Agreement, subject to certain conditions being achieved, and the New Terminal Building, upon its successful commissioning, which is targeted by 2020.

The timelines and procedures for the tender are shown below.

Milestone	O&M
Release of Information Memorandum	30-Apr-18
Opening of Data Room	7-May-18
Release of bid documents	7-May-18
Pre-bid conference	21-May-18
One on one meetings	22-May-18
Submission of queries/ comments	5 days from one on one meeting
Circulation of final bid documents	18-Jun-18
Bid submission	20-Jul-18
Opening of qualification documents	20-Jul-18
Technical bid opening and evaluation	26-Jul-18
Financial bid opening	6-Aug-18
Issuance of notice of award	24-Aug-18
Contract award and signing	30-Aug-18

Table 1: Bid Process

Project Objectives

The Government of the Philippines (GOP) intends to facilitate the full development of Clark International Airport (CIA) as a major gateway to and from the Philippines. This is expected to alleviate traffic congestion in the NAIA and to accommodate the growing traffic through North and Central Luzon, CIA's organic catchment area.

To this end, the GOP has transferred the ownership of Clark International Airport Corporation (CIAC) to BCDA to carry out the required expansion and improvements to the airport (Executive Order 14-2017). BCDA decided to undertake the development of CIA in two stages and under two separate procurements, as follows:

1. the Engineering, Procurement, and Construction (EPC) Contract, which has been awarded to a consortium of Megawide Construction Corporation and GMR Infrastructure, for the design and construction of a New Terminal Building (excluding internal fit-outs, specialist systems and equipment within the terminal and in its apron) and landside facilities, and commissioning and handover of the EPC portion of the New Terminal Building (NTB); and
2. the O&M Concession for the completion and commissioning of the NTB, including its management, operations and maintenance. The O&M Concession likewise includes the management, operations and maintenance of the existing passenger terminal until the operationalization of the New Terminal Building.

The development of CIA is a priority of the GOP. BCDA has secured the requisite approval from the National Economic and Development Authority (NEDA) Board, on 25 April 2018, to competitively bid out the O&M Concession for the Clark International Airport.

BCDA has tapped the services of the International Finance Corporation or IFC, the private sector arm of the World Bank Group, to act as the lead transaction and financial advisor for both the EPC and O&M component projects of the CIA modernization. IFC is supported by Mott MacDonald, as technical consultant; and Pinsent Masons and Gulapa Law, as legal consultants.

Procurement Approach and PPP Structure

BCDA is implementing the modernization of CIA under a Hybrid PPP approach (i.e., separating the EPC component from O&M of the completed facilities). This information memorandum is for the O&M PPP component of the Hybrid PPP.

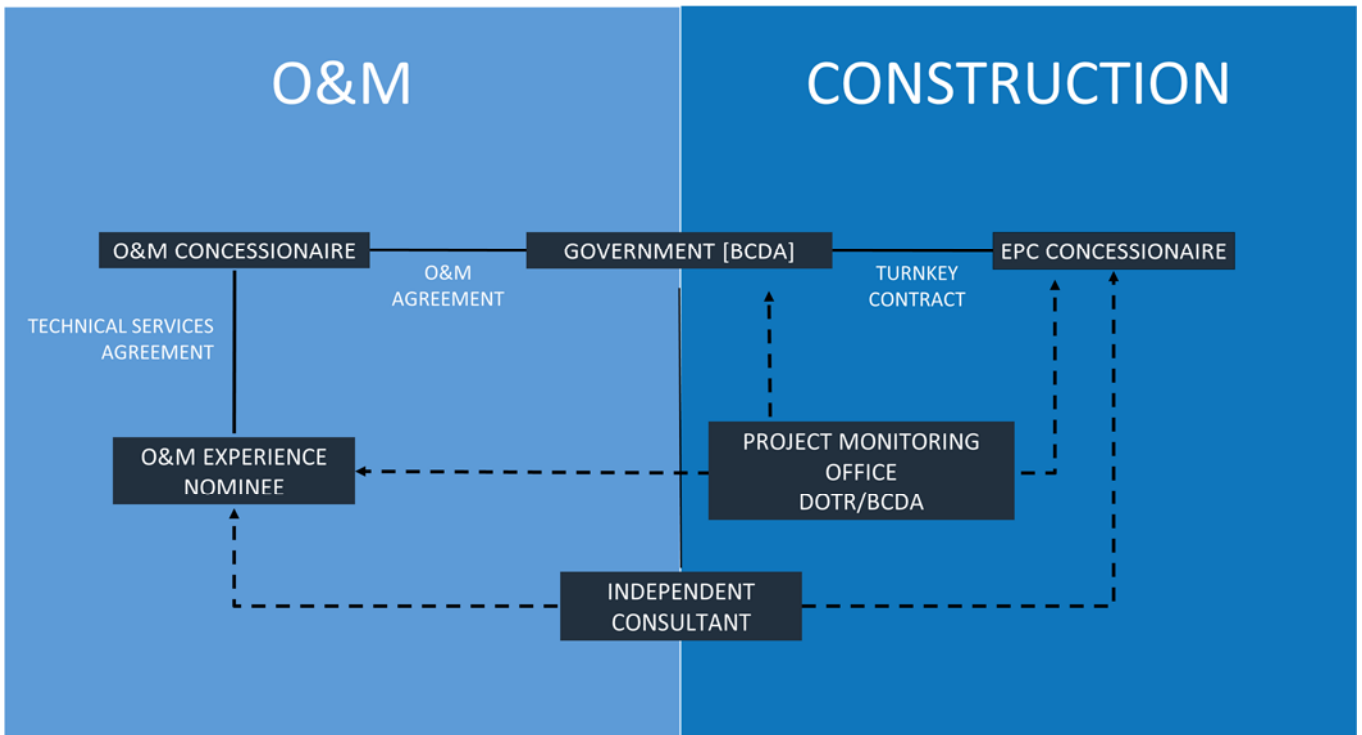


Figure 1: Hybrid PPP Model for CIA

EPC Concession

The EPC Contractor (Megawide-GMR) will be responsible for the financing, design, and construction of the New Terminal Building as well as support its commissioning. The EPC Contractor will also undertake the supply and installation of all requisite facilities and equipment (excluding the internal fit-outs, specialist systems and equipment within the NTB and its apron), and related landside developments in accordance with the minimum performance specifications and standards (MPSS) that were set out in the EPC Contract. The EPC Contract is structured under a Design-Build variant of the Philippines BOT Law.

O&M Concession

This Information Memorandum is for the O&M Concession transaction, for which BCDA intends to partner with a world class international airport operator, likewise to be procured under the Philippines BOT Law. Upon award, the O&M Concessionaire will immediately take over the management and operations of the existing CIA Passenger Terminal, subject to achievement of certain conditions precedent as provided for in the O&M Concession Agreement, and the New Terminal Building upon its completion and successful commissioning.

The O&M Concessionaire will implement its scope of works for the completion of the NTB and operate the same strictly in accordance with the MPSS to be prescribed in the O&M Concession Agreement. The GOP will assign to the O&M Concessionaire all allowable user fees from the airlines and passengers, as well as commercial revenues from ancillary services, leases, parking, and other permissible developments on the airport terminal and the Project Land, which will be as defined and delineated in the O&M Concession Agreement. In return, BCDA expects to –

i) receive the following amounts, equivalent to PhP 10 billion payable in 10 tranches, as follows: 2019 to 2021 (PhP1 Billion per year); 2022 to 2023 (grace period); 2024-2020 (PhP1 Billion per year). The same shall be prescribed in the O&M Concession Agreement

ii) receive a percentage share of gross revenues in quarterly payments. This will be the bid parameter for the tender for the O&M Concession.

Scope and Split of Services

The indicative scope of the O&M Concessionaire includes:

1. Operation and maintenance of the existing terminal including landside infrastructure:
 - North Ramp
 - Passenger Terminal
 - Passenger Terminal Car Park
 - Terminal forecourt and access road to A Bonifacio Avenue

2. Operation and maintenance of airfield components:
 - Runway
 - Taxiways
 - Main Ramp
 - East Ramp

3. Operation and maintenance of ancillary airport facilities including
 - Aircraft Rescue and Fire Fighting (ARFF) facilities
 - ASEAN VIP Lounge
 - Control posts, perimeter fence and other security related facilities
 - Aviation Fuel facilities

4. Development of commercial activities and management of airside locator lease and rental contracts including for the following facilities:
 - Air Cargo
 - In-flight catering
 - Hangars and MRO facilities

5. Complete the internal fit-out for the New Terminal Building, and install all requisite specialist terminal and apron systems therein and in the apron.

6. Manage the Operational Readiness, Activation and Transition (ORAT) process for the New Terminal Building to ensure it is in full operating condition and all critical construction deficiencies are rectified prior to its operation (including decommissioning of the existing terminal)
7. O&M of the New Terminal Building including landside infrastructure:
 - New Terminal Building Apron including remote stands
 - New Terminal Building including all equipment and operational infrastructure, services and systems
 - Passenger Boarding Bridges and Fixed Links
 - A segment of the main access road
 - Car parks for passengers and employees
 - Taxi feeder park
 - Bus station
 - Secondary access road
 - Ancillary facilities (technical areas, delivery area, control post) associated with the operation of the New Terminal Building
8. The O&M Concessionaire shall be responsible for raising all the needed capital to cover all the foregoing obligations, including the recovery of BCDA's Php10 Billion investment in the new terminal.

Independent Consultant (IC)

The consortium of DCCD Engineering Corporation and EGIS AVIA has been engaged as the Independent Consultant (IC) to BCDA and the EPC Contractor for the EPC Agreement. The IC has been tasked to provide feedback and services at critical junctures in the EPC Agreement, such as design review, quality control during construction, acceptance and commissioning of the facility (including the handover). Documentation pertaining to the IC will be included in the Data Room.

BCDA is considering retaining the same IC for the O&M Concession Agreement, subject to applicable laws and agreement of contractual terms. The IC will cover the review of the design, construction, supply, installation scope of the O&M Concessionaire as well as the operational phases vis-à-vis the prescribed MPSS. If there is no agreement between the parties, BCDA will undertake a fresh procurement for an O&M IC. The proposed scope will include:

1. Review the Preliminary Design submitted by Megawide-GMR and assess whether it substantially follows the Tender Design submitted as a part of the Bid Documentation while incorporating, as applicable, the changes following discussions with users and stakeholders
2. Review and approve the Detailed Design of the scope of works under the responsibility of the O&M Concessionaire in compliance with the MPSS.

3. Observe the commissioning and acceptance tests for the New Terminal Building and provide assurance that all tests are being carried out in accordance with agreed testing processes and procedures.
4. Certify operational readiness and successful completion of testing and transfer activities of the O&M Concessionaire.
5. Monitor the performance of the O&M Concessionaire over an agreed period during the O&M Concession phase including compliance with the O&M MPSS defined in the O&M Concession Agreement

The qualifications and scope of work of the IC will be included in the O&M Concession Agreement.

Government Role

The GOP will continue to provide passenger security, customs, immigrations, health & quarantine, and air traffic control services. However, the provision and maintenance of facilities and equipment for these services (excluding air traffic control) will be provided by the O&M Concessionaire.

Salient Features of the O&M Concession Agreement

Scope	<ul style="list-style-type: none"> • Operation of the existing terminal building till the handover of the New Terminal Building • Operation of the New Terminal Building, but not airside facilities and air traffic control • Rights to commercial development in the New Terminal Building • The timing of the capacity augmentation shall be solely determined by the BCDA • 25-year concession period
Revenues	<ul style="list-style-type: none"> • Regulated landside aeronautical fees but deregulated commercial activities • Slot allocation remains with Government • Existing airside locator lease contracts to be novated to the Concessionaire • All other market risk is with the Concessionaire
Operating Costs	<ul style="list-style-type: none"> • Strict adherence to MPSS subject to penalties • Concessionaire to absorb employees who are directly engaged in the operations of the airport • All other market risk is with the Concessionaire
Asset Quality	<ul style="list-style-type: none"> • Concessionaire to take on existing assets as-is-where-is with no obligation on government to provide replacements for obsolete or damaged existing assets • Government to turnover Project Land, but no obligation to deliver additional land for commercial development • Requirement to ensure Philippine aesthetic is incorporated in the design • Concessionaire to ensure commissioning of the New Terminal Building within a given period after the handover subject to penalties • Concessionaire to take on insurance for damages to the asset • Force Majeure costs to be shared
Government Role	<ul style="list-style-type: none"> • Government to provide passenger security personnel • Government to provide airside air traffic control services

- Government to station immigration, customs, and quarantine personnel in the airport
- Government to indemnify Concessionaire from material adverse government action

Table 2: Salient Features of O&M Concession Agreement

Risk Allocation

The risk profile for the Project and allocation for each of the parties will be detailed in the O&M Concession Agreement. A summary of key risks is being provided in this Information Memorandum for ease of reference –

Nature of Risk	BCDA	O&M Concessionaire	Description
1. Refurbishment / extensions of Existing Structure and Assets		✓	Project Assets will be turned over on as-is-where-is basis. Prospective bidders will be provided sufficient relevant data and time to conduct due diligence on the Project assets, and price in all required mitigation measures to bring these up to the MPSS provided in the O&M Concession Agreement.
2. Risks from existing service contracts		✓	Contracts to be novated to O&M Concessionaire, and allowed to naturally expire. Prospective bidders will be provided sufficient relevant data and time to conduct due diligence.
3. Manpower	✓	✓	O&M Concessionaire to absorb employees who are directly engaged in the operations of the airport. A cap of the corresponding cost implication will be provided in the agreement. The list of transferring employees will be provided right after contract signing. The government will provide for the separation package of affected employees.
4. Permits and Approvals/Site Preparation	✓	✓	O&M Concessionaire will bear risks with respect to appropriateness of its design, and preparation of compliant applications. BCDA/CIAC will bear risk for delays and lapses caused by national and local government agencies.
5. Design/Technical Risk	✓	✓	O&M Concessionaire will bear this risk unless it is a government-initiated change in design or change in the agreed service standards leading to additional costs and/or delays in service delivery.
6. Commissioning		✓	Risk that either the physical or the operational commissioning tests which are required to be completed for the provision of services to commence, cannot be successfully completed.
7. Interest Rate		✓	Risk that interest rates may move adversely at any time during the duration of the O&M Concession Agreement

Nature of Risk	BCDA	O&M Concessionaire	Description
8. Exchange Rate		✓	Risk that during operation, exchange rates may move adversely, affecting the O&M Concessionaire's ability to service foreign denominated debt and obtain its expected profit.
9. Inflation		✓	Risk that value of payments received during the term is eroded by inflation. Some relief provided through user fee adjustment indexed to local inflation (which is guaranteed for the first 10 years of the concession).
10. Demand Risk		✓	Risk that operating revenues fall below forecast
11. Tax Changes	✓	✓	This is the risk that before or after completion, the tax imposed on the O&M Concessionaire, its assets or on the project, will change. The O&M Concessionaire will bear the risk for general changes in taxation. BCDA will bear the cost from any changes in the tax regime exclusively caused by the Executive Branch of the Government (i.e. new BIR rulings) over the materiality threshold of Php500 million.
12. Inputs/Operating Cost Overrun		✓	The risk that required inputs during the operations stage cost more than anticipated, are of inadequate quality or are unavailable in required quantities will be borne by the O&M Concessionaire.
13. Maintenance and Refurbishment		✓	The risk that the design and/or construction quality is inadequate resulting in higher than anticipated maintenance and refurbishments costs will be borne by the O&M Concessionaire.
14. Changes in Output Specification Outside Agreed Specification Range (Including Modifications and Augmentations)	✓	✓	Any changes prior to commissioning of the NTB may require a design change (within MPSS) with capital cost consequences depending on the significance of the change and its proximity to completion. The party initiating the change will bear the increased cost. Any cost incurred due to change in design required to meet a change in MPSS will be borne by BCDA.
15. Technical Obsolescence or Innovation	✓	✓	Risk that the nature of the contracted service or its method of delivery is not keeping pace, from a technological perspective, with competition and/or public requirements will be borne by the O&M Concessionaire. If BCDA updates output specifications, then it will bear the cost.
16. Changes in Competitive Network		✓	Any change in the existing airport network including extensions or pricing of competing airports leading to or that result in increased competition or lower revenues – or increased patronage and higher revenues.
17. Changes in Law/Policy	✓	✓	The O&M Concessionaire will bear this risk for all changes in law and/or policy up to a materiality

Nature of Risk	BCDA	O&M Concessionaire	Description
			threshold of Php500 Million, beyond which government bears risk, but only for those under the control of the Executive Branch of the National Government.
18. Economic Regulation	✓	✓	Any changes imposed on the O&M Concessionaire from a statutory economic regulation will be borne by the O&M Concessionaire. User fee adjustment indexed to local inflation to be guaranteed by the government for the first 10 years of operation of the New Terminal Building.
19. Changes in Statutory Rates of General Application		✓	The O&M Concessionaire will bear any changes in minimum wages and other regulated rates of general application.
20. Force Majeure Risk	✓	✓	Risk that inability to meet contracted service delivery (pre- or post completion) is caused by reason of force majeure events will be shared by BCDA and the O&M Concessionaire.
21. Residual Value on Transfer to Government		✓	The O&M Concessionaire will ensure that on expiry or early termination the asset is in the required condition.

Table 3: Risk Allocation for O&M Concession Agreement

Implementation Timelines

Indicative Timetable

Milestone	O&M
O&M Start of Existing Passenger Terminal Building (PTB)	01 December 2018
Construction Start (O&M Component)	January 2020
Construction Completion and Commissioning ORAT	June 2020
ORAT	July 2020

Table 4: Indicative timetable for Project implementation

Indicative Timetable

Milestone	O&M
Release of Information Memorandum	30-Apr-18
Opening of Data Room	7-May-18
Release of bid documents	7-May-18
Pre-bid conference	21-May-18
One on one meetings	22-May-18
Submission of queries/ comments	5 days from one on one meeting
Circulation of final bid documents	18-Jun-18
Bid submission	20-Jul-18
Opening of qualification documents	20-Jul-18
Technical bid opening and evaluation	26-Jul-18
Financial bid opening	6-Aug-18
Issuance of notice of award	24-Aug-18
Contract award and signing	30-Aug-18

Table 5: Bid Process

Bid Process

The procurement of the O&M Concessionaire will also follow a competitive bid in accordance with the BOT Law and its Revised Implementing Rules and Regulations. This bid will be conducted in one stage (with separate qualification, technical and financial envelopes).

Issuance of Bid Documents

Interested parties can purchase the bid documents – composed of the ITB and the Bid Documents – from BCDA. Only persons who have purchased the Bid Documents shall be allowed to participate in the Bid Process and to access the Data Room. Each Bidder must pay One Million Philippine Pesos (PhP 1,000,000) for the Bid Documents. Only those who have procured the documents will be allowed to submit bids.

Qualification Criteria

To qualify to bid for the Project, prospective bidders must comply with all the Legal Qualification Requirements, Technical Qualification Requirements, and Financial Qualification Requirements.

Legal Qualification	<p>Registration with SEC or foreign equivalent</p> <p>No record of unsatisfactory performance for members submitting projects for technical qualification</p> <p>Ownership of at least 60% of shares by persons organized under the laws of Philippines</p> <p>Prospective bidder must not have any stake in any facility operator within the main island of Luzon, or must not hold, whether direct or</p>
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	indirect, a majority equity interest in a concession holder of an International Airport in the Philippines.
Technical Qualification	<p>1. Experience in the operation and maintenance of an international airport for at least a period of three (3) consecutive calendar years with an annual passenger throughput of at least 8 million passengers. At least 50% of passengers should be international passengers if the airport has combined international and domestic passengers.</p> <p>a. Airport operation and maintenance experience should include the following at a minimum –</p> <ul style="list-style-type: none"> • Passenger landside facilities (car parks, forecourts, public transportation facilities, etc.); • All parts of a passenger terminal (or terminals) that can handle a mixture of domestic and international traffic; • An aircraft apron with at least ten (10) contact (passenger boarding bridge served) stands. <p>b. The minimum recorded “Overall Satisfaction” ASQ score shall be three and half (3.5) for each quarter for each quarter of the most recent calendar year of operations. In cases where the ASQ survey is not undertaken at the relevant airport, the prospective bidder shall report the “Overall Satisfaction” score of an equivalent in-house customer satisfaction survey and demonstrate its equivalence to an ASQ score of at least three and half (3.5).</p> <p>c. Proof that the airport is included in the latest ranking of Skytrax’s Top 20 Best Airports.</p> <p>All of the aforementioned requirements should be met by the same airport.</p> <p>2. Client-side or in-house experience in specifying, procuring, testing, and commissioning an in-line baggage handling system consisting of outbound baggage facilities (such as baggage conveyor belts, hold baggage screening, sortation, and baggage make-up) and inbound baggage facilities (such as baggage reclaim belts and baggage conveyor belts). The baggage handling system shall have been specified, procured, tested, and commissioned either as part of a new terminal development or as part of an upgrade to an existing terminal. The total passenger handling capacity of the terminal for which the baggage handling system has been specified, tested, and commissioned shall be at least eight (8) million passengers per annum.</p> <p>3. The Bidder must have client-side or in-house experience in specifying, procuring, testing, and commissioning an integrated</p>

airport specific information technology system. At a minimum, this information technology system shall consist of Common Use Passenger Processing System (CUPPS/CUTE); Flight Information Display System (FIDS); Access Control (AC); Airport Operational Database (AODB); Telecommunications/ICT Rooms; Fire Alarm System (FAS) and Building Management System (BMS) for a minimum passenger handling capacity of eight (8) million passengers per annum.

4. The Bidder must have client-side or in-house experience in planning, implementing, and completing Operational Readiness, Activation, and Transfer for a new build terminal or significant expansion or modification of an existing terminal with a passenger throughput of at least eight (8) million passengers per annum.

Requirements in paragraph 2, 3 and 4 may be met by an airport other than the airport qualifying under paragraph 1.

Key Personnel Requirements –

Minimum Experience and Qualifications Required	Minimum Years of Experience
<p>At least (1) person responsible for the management of operation of a terminal for a period of at least three (3) calendar years with a passenger throughput of at least eight (8) million passengers per annum</p> <p>He or she should possess a relevant degree from a recognized institution and recognized professional qualification in engineering, operations research or management.</p>	<p>15 years of industry experience</p>
<p>At least one (1) person responsible for the management of repairs and maintenance of a terminal for a period of at least three (3) calendar years with a passenger throughput of at least eight (8) million passengers per annum</p> <p>He or she must possess a relevant degree from a recognized institution and recognized professional qualification in a relevant civil or building engineering discipline.</p>	<p>15 years of industry experience</p>
<p>At least one (1) person responsible for leading route development and marketing activities at an airport for a period of at least three (3) calendar years with a passenger throughput of at least eight (8) million passengers per annum.</p>	<p>15 years of industry experience</p>

	<p>He or she must possess a relevant degree from a recognized institution and recognized professional qualification in a relevant management, marketing or business administration discipline.</p>		
	<p>At least one (1) person responsible for client-side project delivery including the specification, testing and commissioning of major operating equipment within an airport terminal, the management of ORAT activities as well as leading and delivering major terminal information technology system or equipment upgrades.</p> <p>He or she must possess a relevant degree from a recognized institution and recognized professional qualification in a relevant project management, operational research or business administration discipline.</p>	15 years of industry experience	
Financial Qualification	<p>Minimum net worth of at least Five Billion Philippine Pesos or its equivalent as of its latest audited financial statements which must be dated not earlier than 31 December 2017; and</p> <p>Provide evidence that it has the capability to raise loans of at least Ten Billion Philippine Pesos</p>		

Investor Due Diligence

Prospective bidders are welcome to conduct their due diligence and will be provided access to the Project Site. The process will be supervised by BCDA and CIAC, with the assistance of IFC. Potential bidders will have to provide BCDA sufficient time to schedule site visits.

Those who purchase the Bid Documents will also be granted access to the Data Room where relevant due diligence materials, the bid documents and bid bulletins will be uploaded.

Investor Conference and One-on-one Meetings

Interested parties may attend the pre-bid conference where BCDA, IFC, the design consultant for the EPC Contractor and the technical and legal consultants will provide additional information on the transaction; clarify any questions on the bid documents; and get feedback on any bidders' concerns on the procurement process, bid documents and overall implementation arrangements for the project.

Prospective bidders will be entitled to attend a one-on-one meeting with BCDA and IFC for consultations on the ITB and the draft O&M Concession Agreement. Potential bidders will be allowed to comment on the transaction bid documents. BCDA and IFC will engage in transparent and open negotiations with all parties. It is understood that, at the end of the negotiations, all potential bidders will receive the same final version of the transaction documents on which to bid.

Single-stage Qualification and Bid Evaluation

Prospective bidders will be provided sufficient time from the release of the Bid Documents to the Bid Submission Date to prepare their bid submissions.

Bidders will submit three envelopes on Bid Submission Date.

The First Envelope will contain the Qualification Documents. Bidders will be qualified or disqualified on the basis of their legal, technical and financial qualifications against the criteria and minimum requirements set out in the ITB.

Only those who have qualified, based on the results of the evaluation of the First Envelope, will have their Second Envelopes opened. The Second Envelope will contain the Technical Proposal. The Special Bids and Awards Committee (SBAC) of the BCDA will evaluate the completeness and the compliance of the bidders' technical proposals based on the criteria and the mechanics set out in the Instructions to Bidders. The Second Envelope will also contain the bidders' Bid Security. Disqualified bidders will be notified and provided an explanation regarding their disqualification. Their bid securities will also be returned.

Only those who have passed the Technical Evaluation will have their Third Envelopes opened. The Third Envelope will contain the offered Percentage Share of Gross Revenue (Financial Proposal). The bidder with the highest Percentage Share of Gross Revenue will be declared the Winning Bidder.

Post-qualification and Award

The Winning Bidder will be selected to undergo a post-qualification process as set out in the Instructions to Bidders. The SBAC will conduct final verification of the credentials and the bid documents of the Winning Bidder before the Notice of Award is issued. If no irregularities are found, then the Notice of Award will be issued to the Winning Bidder.

Other qualified bidders who passed the Technical and Financial Evaluations may maintain their Bid Securities with BCDA. Should the Winning Bidder be disqualified in the post-qualification stage, or it fails to sign the O&M Concession Agreement, the bidder with the next highest bid and with a valid bid security still with BCDA will proceed to the post-qualification stage and may be declared the Winning Bidder.

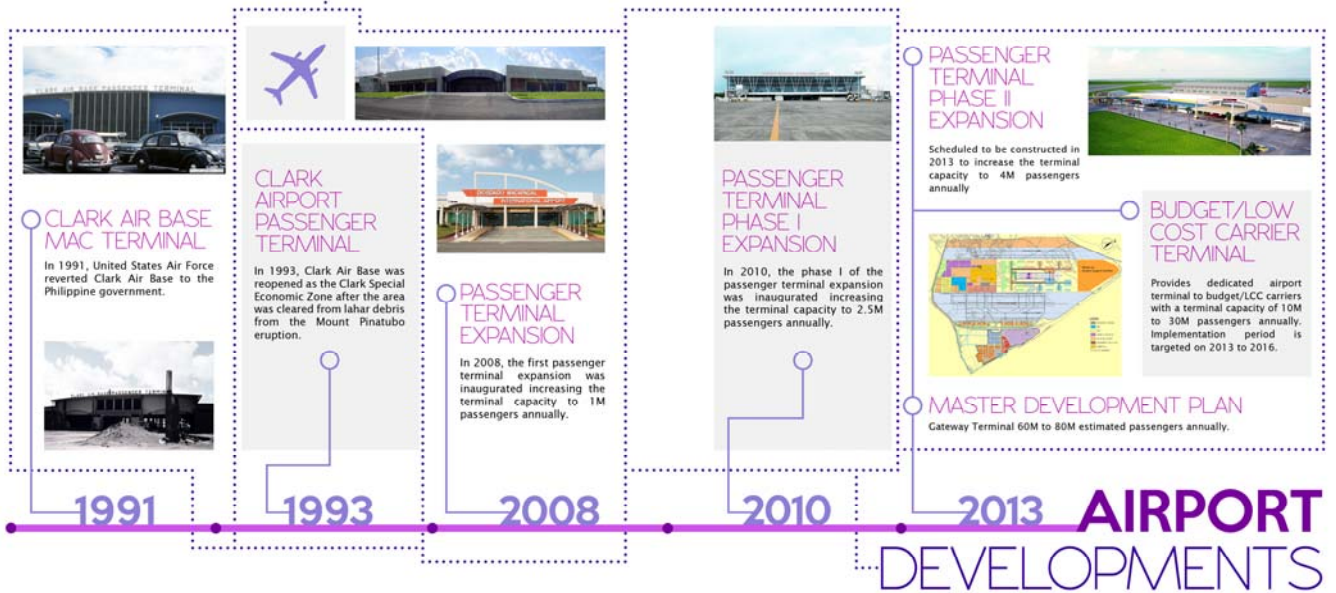


Figure 2: CIAC Development Timeline¹

Location

The Philippines is an archipelago of over 7,100 islands, located in the western Pacific Ocean. Luzon is the country's largest and most populous island and CIA is located in Central Luzon, about 100 km northwest of Manila. The maps below indicate the location of CIA relative to the rest of the South-East Asia and key centers in Philippines.

¹ Source: CIAC

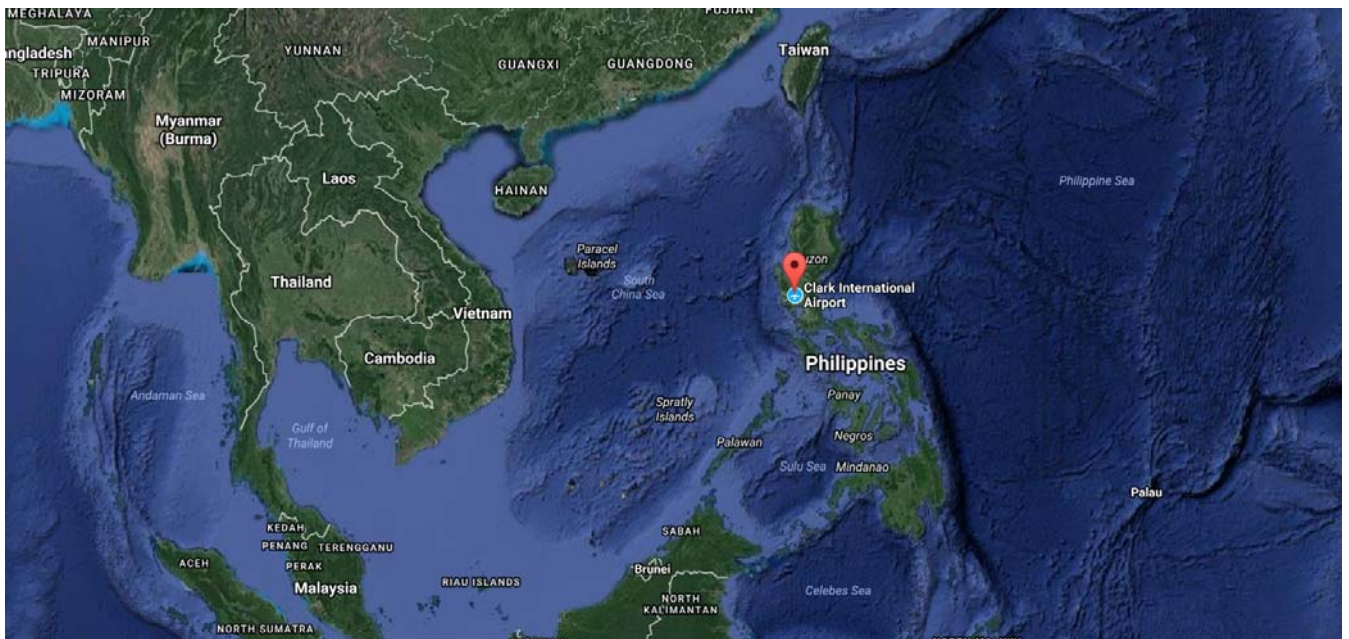


Figure 3: Proximity to main centers in South East Asia

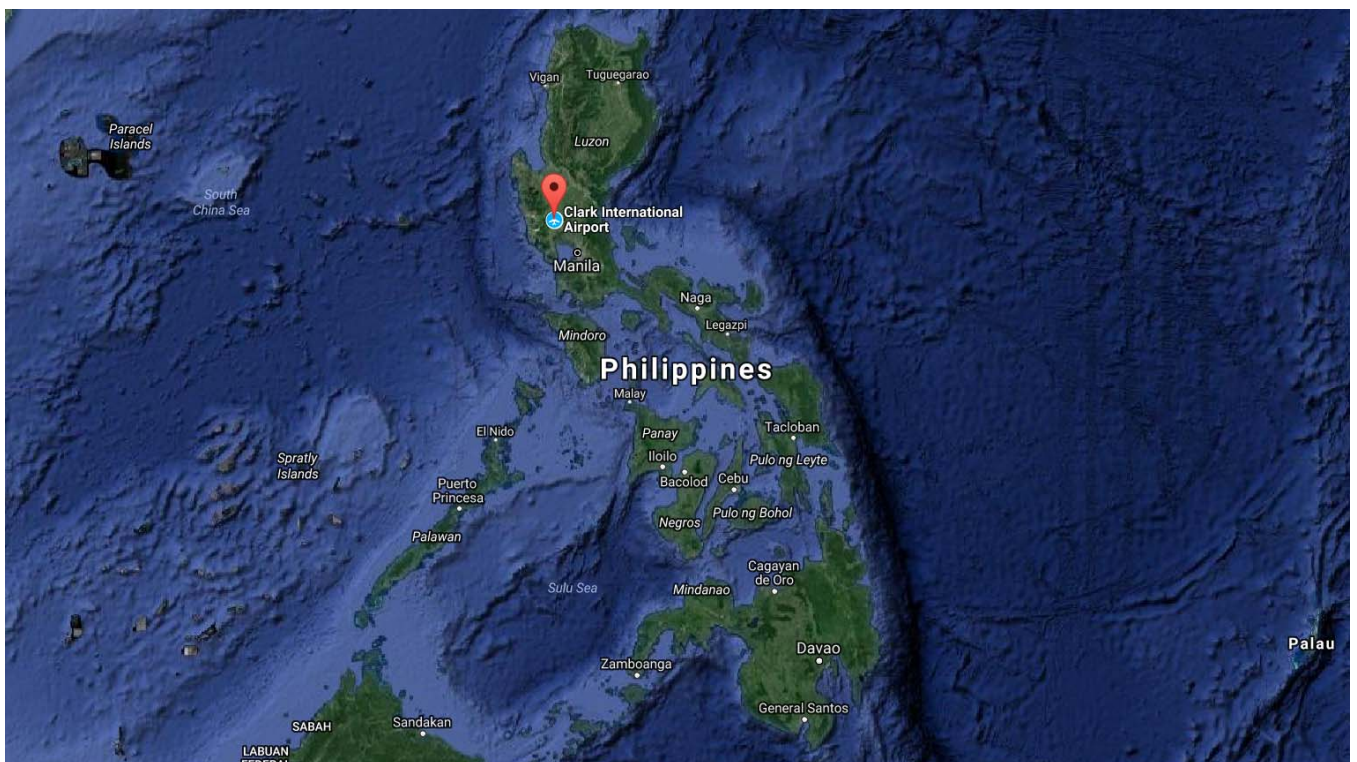


Figure 4: Proximity to key centers in Philippines²

CIA serves the Greater Capital Region (GCR) and North and Central Luzon. The GCR encompasses Metro Manila and suburbs to the north and south. Three international airports are in Luzon:

- Manila International Airport or NAIA;

² Source: Google Maps

- CIA; and
- Laoag International Airport, which is almost 400 km away from Metro Manila and currently serves only one international flight from Guangzhou through China Eastern Airlines.

Clark International Airport is about 90 km away from NAIA. From the northern parts of Metro Manila (Quezon City), travel time to CIA and NAIA are roughly the same.

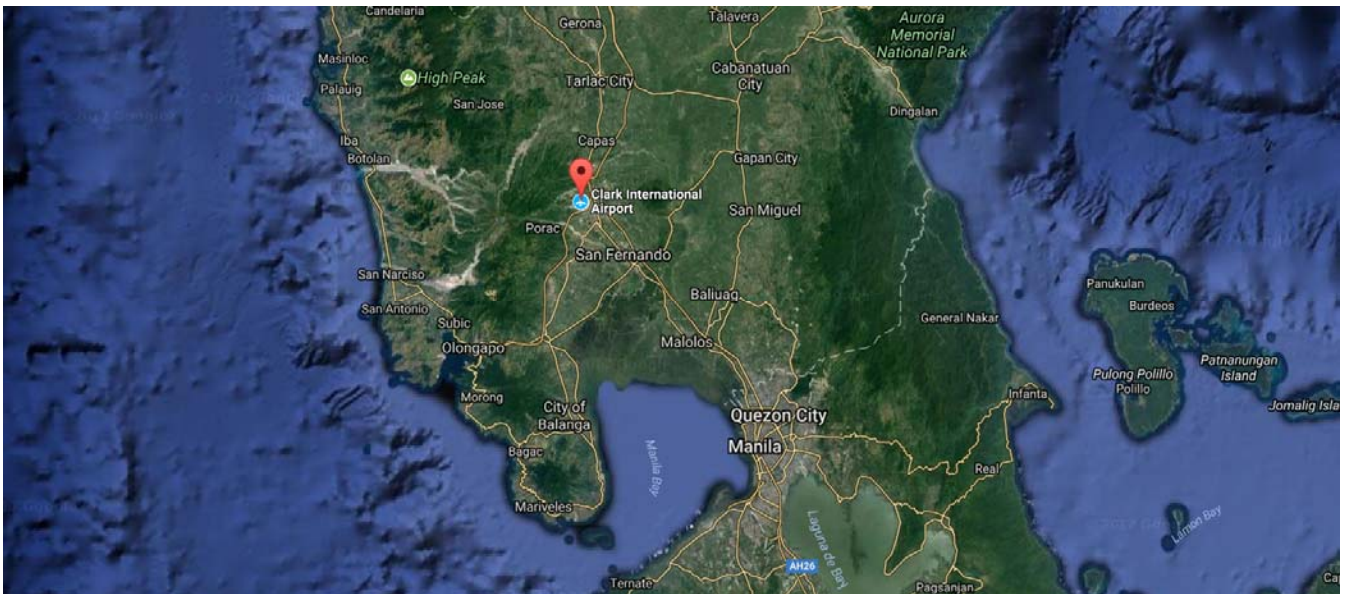


Figure 5: Proximity to Manila³

³ Source: Google Maps

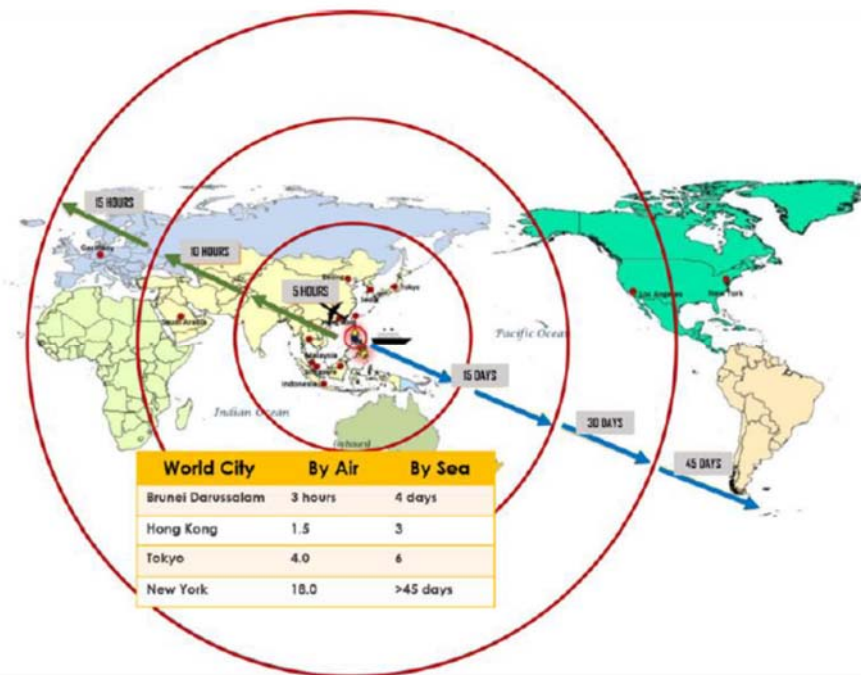


Figure 6: Proximity to major global centers

CIA is part of the Clark Freeport Zone which is managed by the Clark Development Corporation (CDC), a wholly-owned subsidiary of BCDA, and is located on the northwest side of Angeles City and on the west side of Mabalacat City in Pampanga Province. The zone is a former US military base which has been converted to a special economic zone providing tax incentives and low tax rates to investors as well as unlimited duty-free goods consumption. The map below highlights the land use areas around the airport. The airport site itself occupies a total of 2,367 hectares. The airport lies in between the Mount Pinatubo on the West and the Mount Arayat on the East.

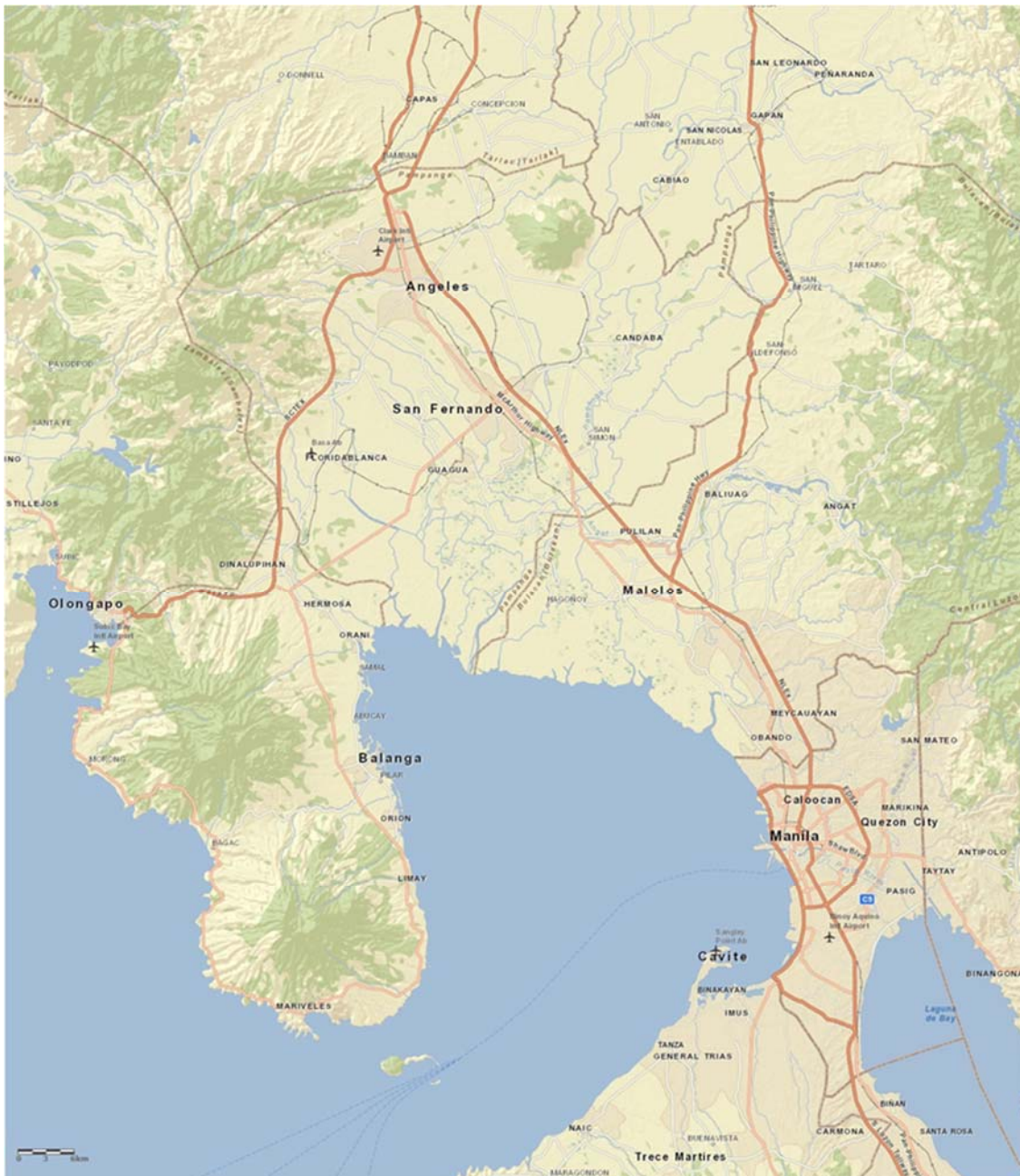


Figure 7: Location of CIA⁴

⁴ Source: <http://www.arcgis.com>

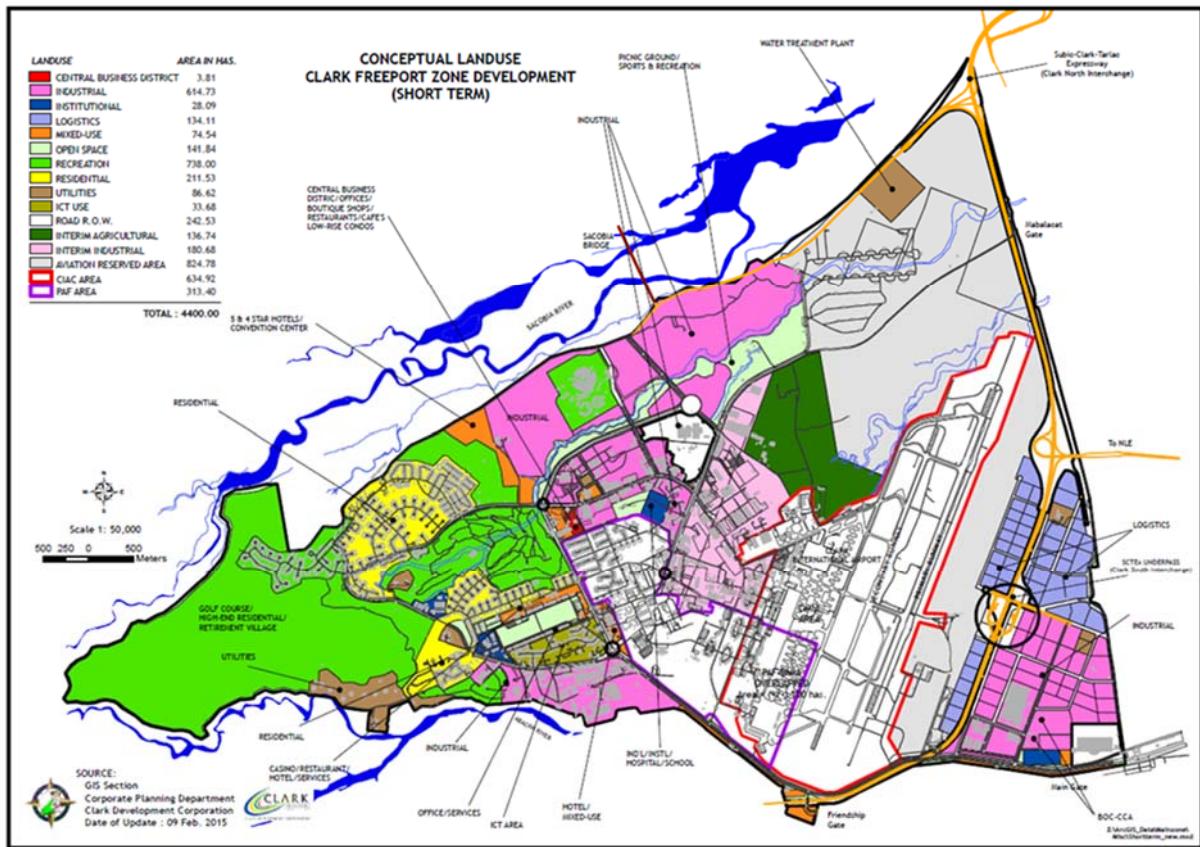


Figure 8: Land use around Clark International Airport⁵

⁵ Source: CDC

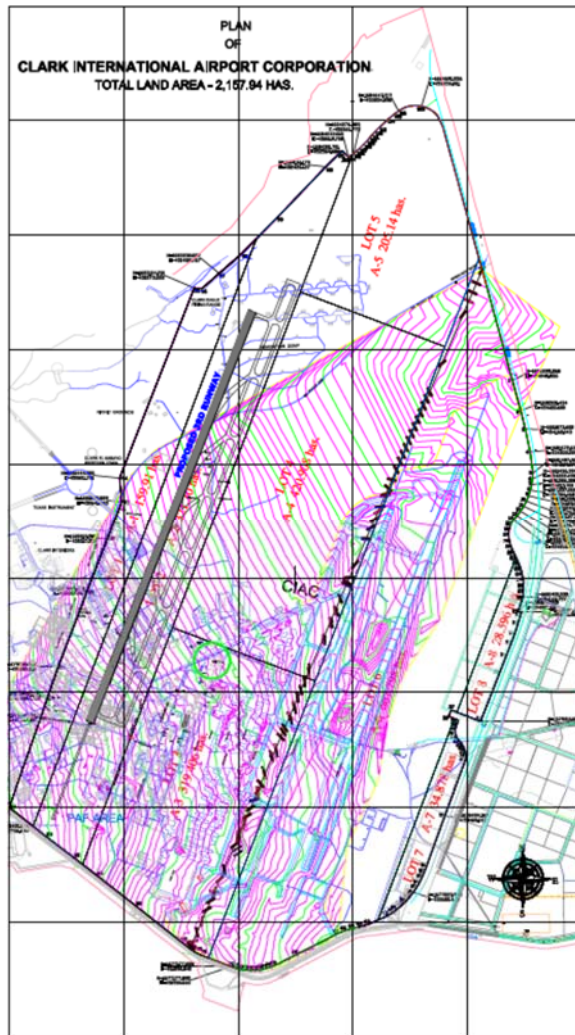


Figure 9: Total Area⁶

⁶ Source: CIAC

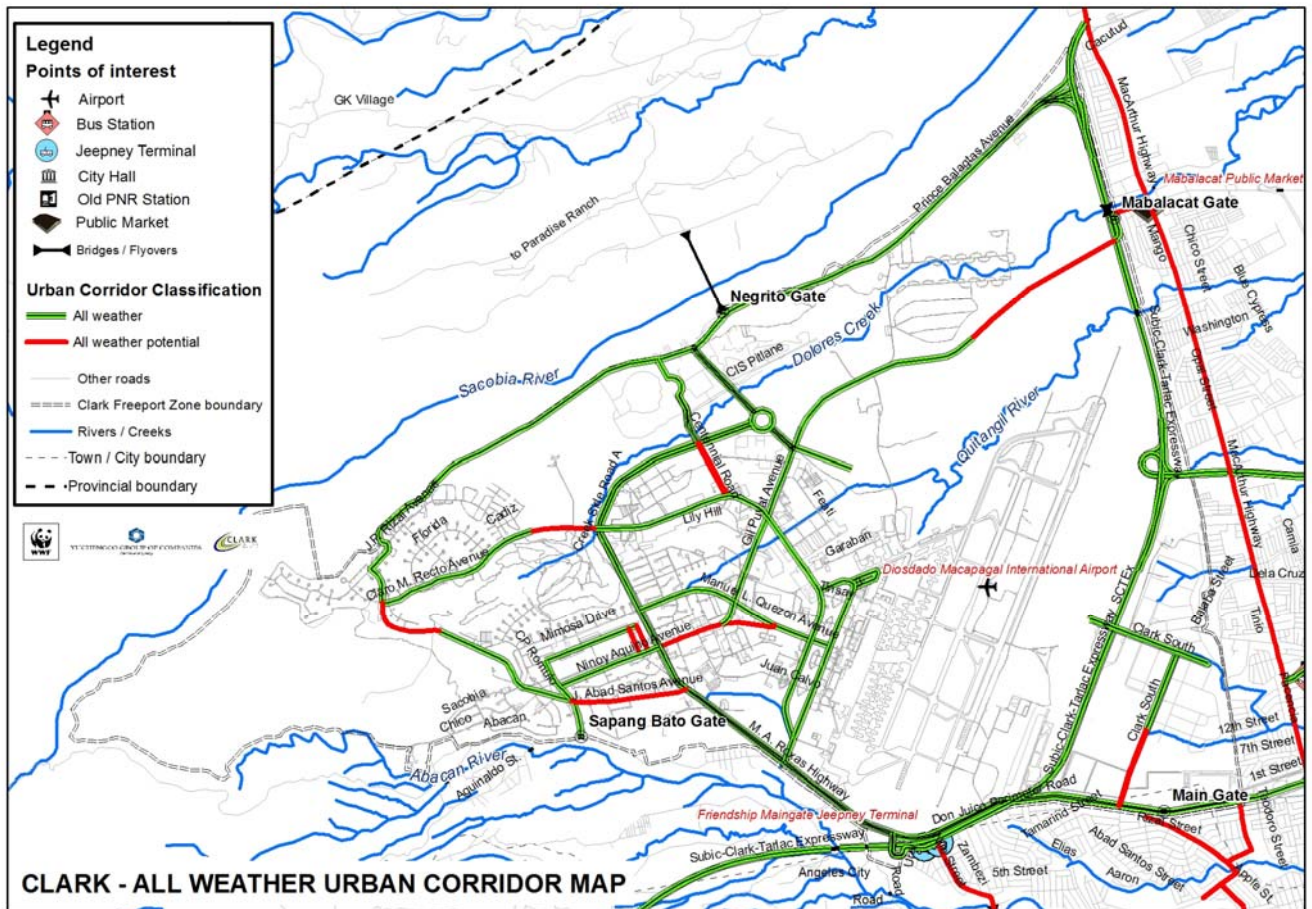


Figure 10: Clark Corridor Map⁷

Operational Structure

CIA is currently being operated by CIAC, a fully-owned subsidiary of BCDA. The Department of Transportation (DOTr) through its attached agencies provide air navigation and traffic support, through Civil Aviation Authority of the Philippines (CAAP); security services, through the Office of Transport Security (OTS); and airline regulation, through Civil Aeronautics Board (CAB). DOTr controls the policy directions and project planning for aviation in general, and BCDA implements projects specific to its zone. Various agencies such as the Bureau of Immigration, the Bureau of Customs, the Bureau of Quarantine, and the Plant and Animal Quarantine Services, also provide government services within the airport zone.

⁷ Source: CIAC

Connectivity

Roads

Several expressways connect CIA to Metro Manila and North and Central Luzon:

- North Luzon Expressway (NLEX) – 83.7 km,
- Subic-Tipo Expressway – 8.8 km,
- NLEX Spur Road (Bulacan) – 0.1 km,
- Subic-Clark-Tarlac Expressway (SCTEx) – 93.77 km,
- Tarlac-Pangasinan-La Union Expressway (TPLEX) – 41 km, and
- Central Luzon Link Expressways – 66.4 km.

Two expressways connecting SLEX, NLEX, and the Skyway systems are also under construction, which would further improve the connectivity of CIA not just to GCR but to Southern Luzon as well.

Central Luzon is well-connected through public local and national roads as well. Other roads include:

- Manila North Road (MacArthur Highway),
- Cagayan Valley Road (Maharlika Highway),
- Plaridel Bypass Road,
- Gapan-San Fernando-Olongapo Road,
- Iba-Tarlac-Sta. Rosa-Pantabangan-Baler Road,
- Capas-Botolan Road,
- Sta. Cruz-Mangatarem Road,
- Baler-Casiguran Road,
- Dinadiawan-Madella Road,
- Olongapo-Bugallon Roadm
- Roman Highway,
- Mariveles-Bagac Road,
- Angeles-Dinalupihan Road, and
- Bagac-Morong-Subic Road.

Region/ Province	Paved		Unpaved		Total	% Paved
	Concrete	Asphalt	Gravel	Earth		
Central Luzon	1,109.21	1,153.65	81.84	-	2,344.70	96.51
Aurora	198.12	5.90	51.16	-	255.18	79.95
Bataan	142.70	158.40	22.40	-	323.50	93.08
Bulacan	178.77	164.16	-	-	342.93	100.00
Nueva Ecija	251.73	266.27	7.39	-	525.39	98.59
Pampanga	170.50	158.67	0.89	-	330.06	99.73
Tarlac	157.88	217.97	-	-	375.85	100.00
Zambales	9.51	182.28	-	-	191.79	100.00

Table 6: Road connectivity in Central Luzon⁸

Rail

⁸ Source: Department of Public Works and Highways

Two Railway projects – Subic- Clark Railway Project and Manila Clark Railway Project – are under development and targeted for completion by 2022.

Sea Ports

CIA is about 75 km from Subic Port which is also a former US military port. It has a protected bay and a 13.7 m harbor. It has 12 operational piers and wharves and 3 container terminals with a total capacity of 600,000 TEUs/year.

CIA is about 100 km from the Port of Manila, the country’s most important sea port.

Public Transportation

The following public transportation options are available:

1. Buses to and from: Pasay, Trinoma, and Baguio. Seven point-to-point bus packages are also being developed:
 - a. Clark-North Edsa-Ortigas-NAIA,
 - b. Clark-Lubao,
 - c. Clark-Dagupan,
 - d. Clark-Subic,
 - e. Clark-Malolos,
 - f. Clark-Tarlac, and
 - g. Clark-San Jose.
2. Air-conditioned jeepsneys,
3. Coupon and metered taxis, and
4. Car rental services.

Traffic Volume

PASSENGER	2013	2014	2015	2016	2017
Domestic	215,173	90,948	41,824	51,625	431,343
January	29,507	9,581	3,588	4,337	11,348
February	26,770	8,325	2,891	3,665	17,078
March	22,916	8,355	2,695	4,340	24,797
April	26,314	8,779	3,549	4,419	44,391
May	24,930	10,254	3,693	4,310	51,336
June	17,808	8,703	2,863	4,008	38,590
July	15,716	6,951	2,859	3,647	34,662
August	15,296	8,192	2,993	3,690	33,553
September	13,577	7,674	3,063	3,497	28,458
October	7,915	7,427	3,739	3,618	35,615
November	6,036	2,902	5,771	4,069	40,745
December	8,388	3,805	4,120	8,025	70,770
International	985,419	786,809	826,704	899,382	1,083,188
January	124,413	86,443	74,709	78,662	107,759
February	100,101	68,085	58,573	69,717	90,456
March	108,710	81,990	69,572	74,150	94,687
April	106,746	85,771	76,992	77,366	95,942
May	97,954	70,369	76,769	83,887	94,919
June	70,594	62,442	67,613	75,092	79,365
July	60,848	53,223	66,894	75,408	83,283
August	56,142	53,921	69,890	73,299	84,520
September	49,626	45,620	53,343	61,941	72,758
October	58,449	51,123	63,236	65,851	77,237
November	62,802	53,571	71,933	69,818	88,743
December	89,034	74,251	77,180	94,191	113,519
Grand Total	1,200,592	877,757	868,528	951,007	1,514,531

Table 7: Annual passenger volumes at CIA

FLIGHT	2013	2014	2015	2016	2017
Domestic	1,916	936	348	360	5,399
January	254	92	38	27	112
February	224	81	24	22	165
March	200	74	21	27	265
April	214	80	26	26	473
May	188	114	26	26	544
June	152	96	25	26	504
July	162	82	26	27	464
August	156	88	26	26	474
September	158	83	26	27	409
October	78	60	28	26	540
November	54	26	55	26	550
December	76	60	27	74	899
International	8,420	5,715	5,709	5,852	7,221
January	1,070	635	527	499	634
February	871	545	442	458	562
March	893	590	477	470	632
April	833	495	493	474	593
May	825	454	513	532	623
June	642	460	487	481	549
July	542	410	484	479	550
August	509	413	497	483	570
September	511	382	390	472	542
October	517	388	437	479	575
November	568	421	470	460	654
December	639	522	492	565	737
Grand Total	10,336	6,651	6,057	6,212	12,620

Table 8: Annual aircraft movements for CIA

The tables above show the passenger volumes and aircraft movements for CIA for the past 5 years. The growth in movements up to 2012 reflects the increase in passengers but also resulted in decreased load factors particularly between 2011-2013 when average load factors were 65% or less. In the last 2 years, general load factors have recovered and are now well above 70%.

Airline		Destinations
AirAsia		Kalibo, Davao; PH
AirSWIFT		El Nido (ENI), PH
Alphaland Aviation		Balesin
Asiana Airlines	ASIANA AIRLINES 	Seoul-Incheon (ICN), KR
Cathay Dragon		Hong Kong (HKG), HK
CebGo		Caticlan (MPH), PH; Busuanga (USU), PH
Cebu Pacific Airlines		Cebu, PH; Hong Kong, HK; Macau, MO; Singapore, SG
Emirates		Dubai, UAE






Jin Air		Seoul, KR; Busan, KR
PAL Express		Cebu, Caticlan, Busuanga, PH
Philippine Airlines		Davao, Puerto , Princesa PH; Incheon, KR
Qatar Airways		Doha (DOH), QA
Scout		Singapore (SIN), SG

Table 9: Airlines at Clark International Airport⁹

The figure below indicates that in terms of airline seat capacity, Cebu Pacific has the largest share with approximately 505,000 seats (23% of total capacity) followed by PAL Express with 325,000 sets (14%). The Cebu Pacific Group (27% of total capacity) and the PAL Group (25% of total capacity) combined offer around half of the airport's seat capacity.

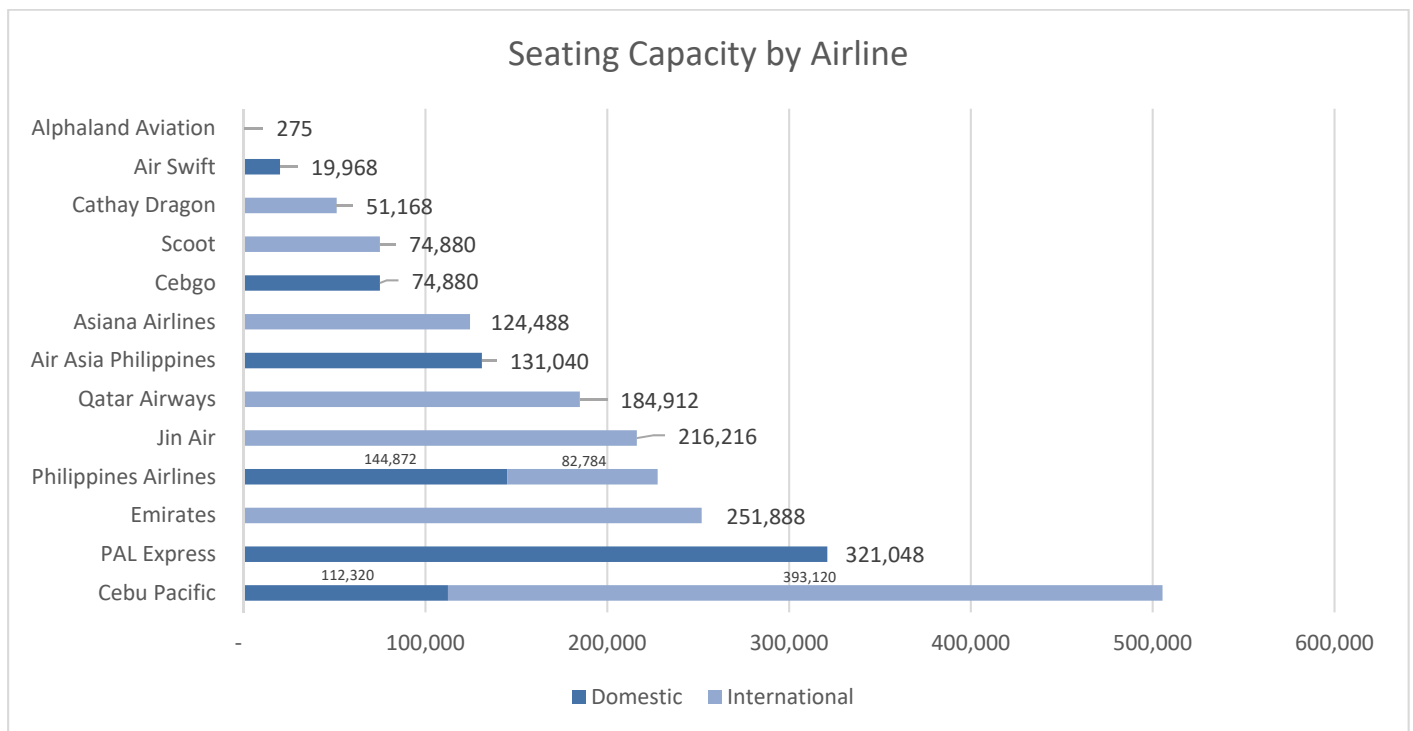


Figure 11: 2018 Seating Capacity

⁹Source: SRS Schedules

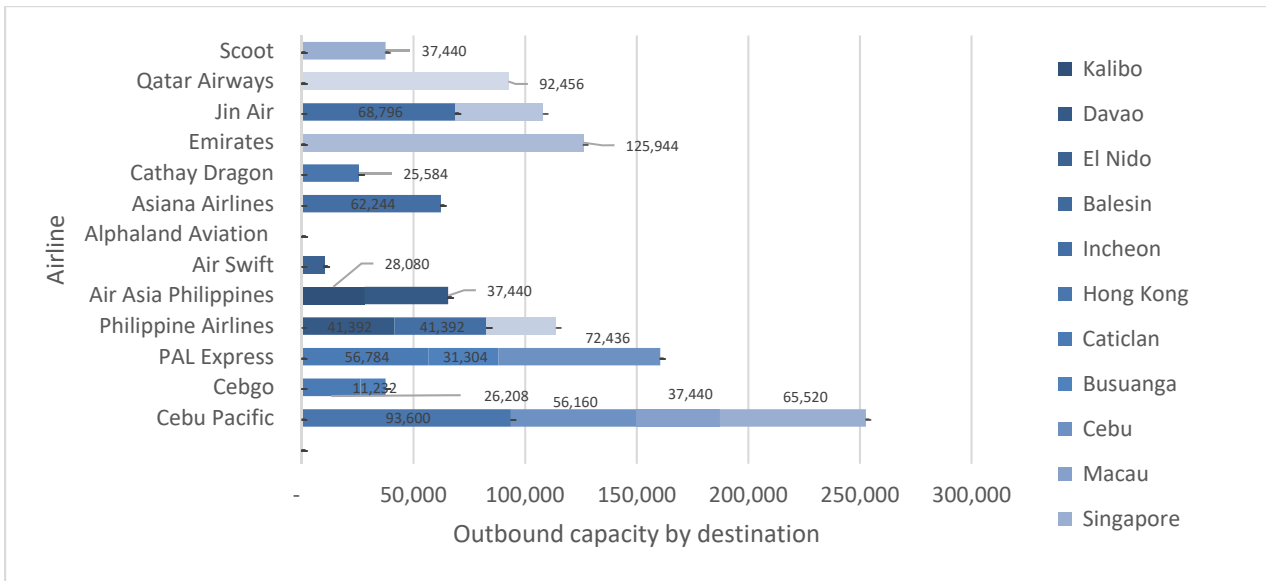


Figure 12: Destination profile for outbound flights 2018

Most passengers arriving through CIA are bound for areas in North and Central Luzon.

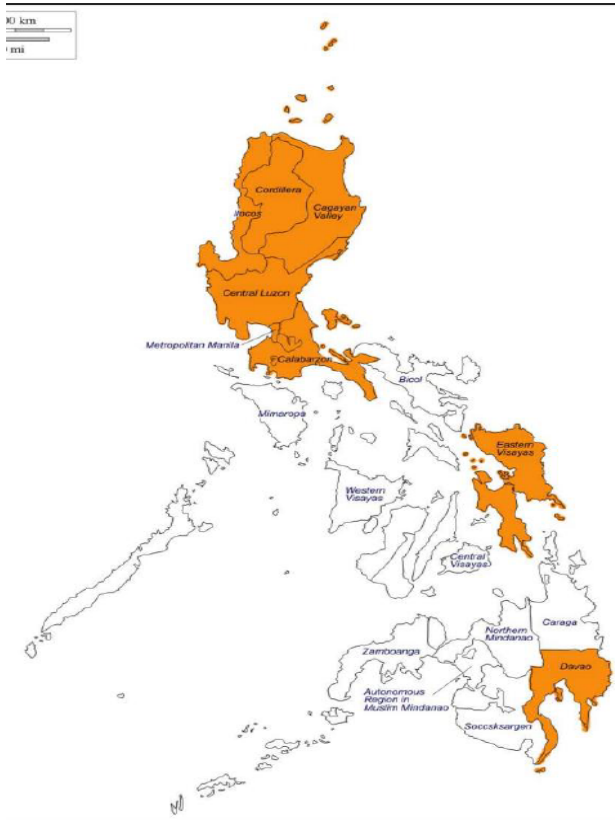


Figure 13: Luzon region

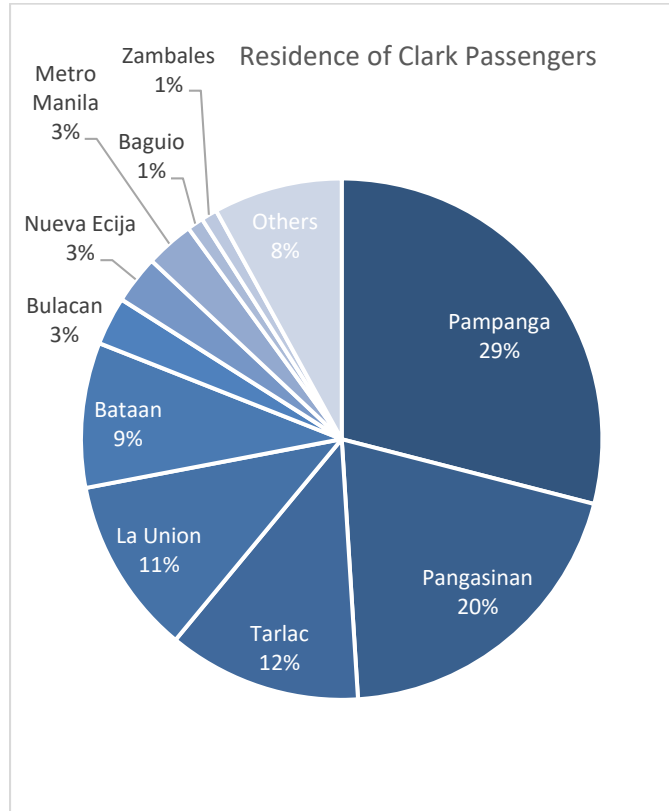


Figure 14: Residence of Clark Passengers

Some demographic statistics of Clark's passengers for 2017 are presented below –

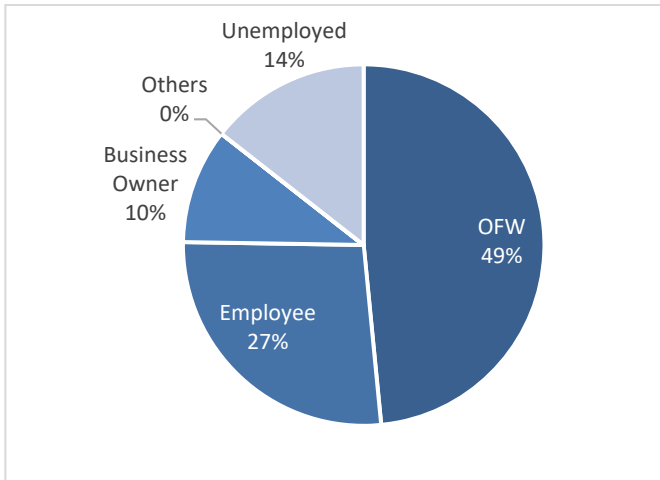


Figure 15: Occupation of Clark Passengers

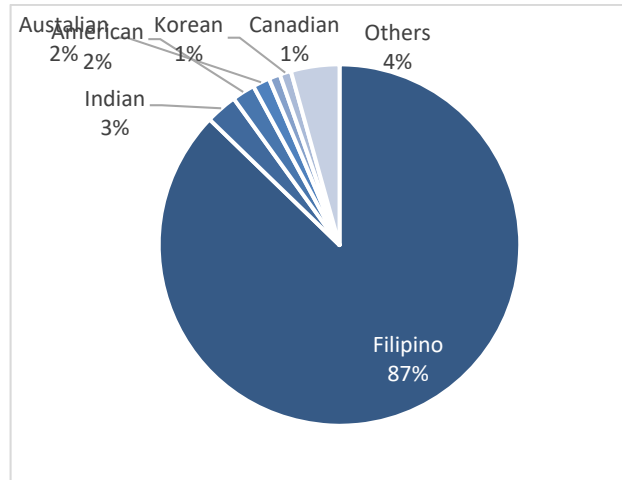


Figure 16: Nationality of Clark Passengers

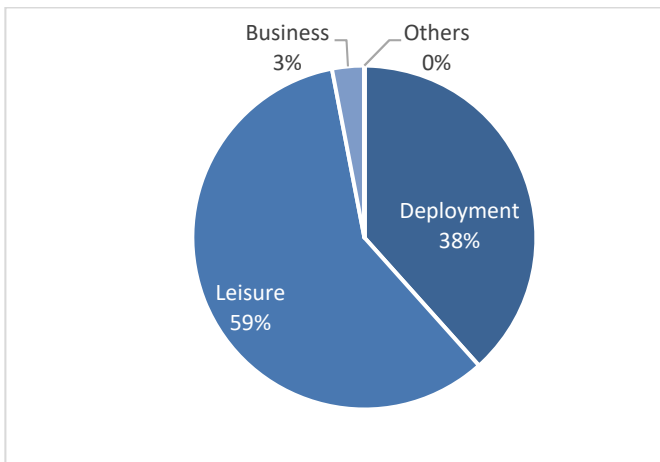


Figure 17: Purpose of travel

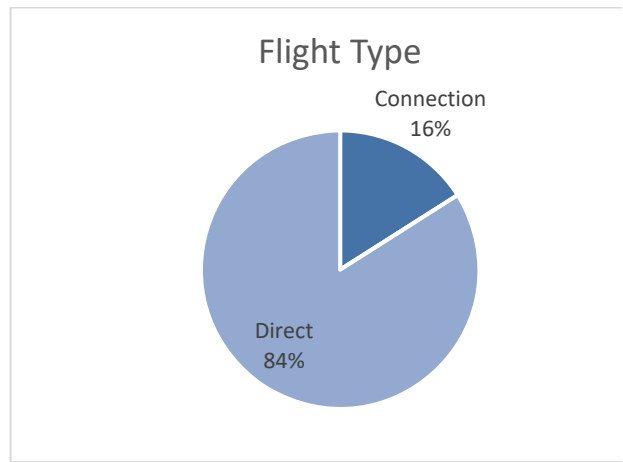


Figure 18: Flight Type

Existing Facilities

The existing airport layout is shown below. It consists of two closely spaced parallel runways, a taxiway system, three main aprons, one passenger terminal, cargo handling facilities as well as several maintenance hangars and aircraft line maintenance facilities. A general aviation airfield is also located to the southeast of the primary runway. The airport is used by both commercial and military aircraft and the Philippine Air Force (PAF) has aircraft based at Clark.



Figure 19: Airport design and layout¹⁰

Airfield

The Runway Physical Characteristics are shown below. The secondary runway (02L/20R) has been decommissioned and is no longer in use. A new maintenance hangar is currently being constructed on the stopway of Runway 02L.

¹⁰ Source: ADPI Master Plan

Designations RWY NR	TRUE BRG	Dimensions of RWY	Strength (PCN) and surface of RWY and SWY	THR coordinates RWY end coordinates THR geoid undulation	THR elevation and highest elevation of TDZ of precision APP RWY
1	2	3	4	5	6
02R	021° GEO 022° MAG	3200M X 60M	PCN 85 R/C/W/T	151027.7198N 1203328.2441E (42.62M)	THR 142.141M/ 466.341FT TDZ 142.172M/ 466.443FT
20L	201° GEO 202° MAG	3200M X 60M	PCN 85 R/C/W/T	151204.9015N 1203406.7568E (42.573M)	THR 119.922M/ 393.444FT TDZ 125.394M/ 411.397FT
02L	021° GEO 022° MAG	3200M X 45M	PCN 60 R/B/X/U CONC+ASPH overlay	151014.1215N 1203307.5427E (42.642M)	THR 147.469M/ 483.821FT TDZ 147.603M/ 484.261FT
20R	201° GEO 202° MAG	3200M X 45M	PCN 60 R/B/X/U CONC+ASPH overlay	151151.4994N 1203346.1227E (42.597M)	THR 127.713M/ 419.005FT TDZ 131.777M/ 432.338FT

Table 10: Physical characteristics of the runway (note that Runway 02L/20R is no longer in use)

Another runway for General Aviation aircraft belonging to the Omni Flight School is located southeast of the main runway. The runway dimensions are 600mx15m parallel to the primary runway. Omni Flight School has a 25-year lease agreement with CIAC which expires in 2019.

The taxiway system of CIA comprises of a full parallel taxiway (Taxiway A). This taxiway is located West of the Runway system and is connected to the secondary runway via 6 right-angled taxiways and connected to the primary runway via a dedicated taxiway which bypasses the secondary runway. The primary runway is connected to the secondary runway via 4 right-angled taxiways.

There are four aircraft parking areas at CIA:

- North Ramp (passenger apron),
- Main Ramp (cargo and military),
- East Ramp, and
- South Ramp (military).

The North Ramp which handles the commercial traffic has a parking capacity of up to 6 aircraft:

- Aircraft stands 2, 3, 4, & 6 can accommodate aircraft up to Boeing B747-400 (ICAO Code E aircraft)
- Aircraft stands 1 & 5 can accommodate aircraft up to DC-10 (ICAO Code D aircraft).

The North Ramp has two contact parking positions connected to passenger boarding bridges (PBB). The Main Ramp parking capacity is 6 aircraft (up to Boeing B747 - ICAO Code E aircraft). The West Ramp is principally used by Freighter aircraft (UPS and FedEx Express) or other Cargo operators.

The East Ramp was used during the time when the US air base was operational and is now only used on exceptional basis during military exercises when additional space for parking aircraft is required. The South Ramp is the main Military Ramp as it is surrounded by the facilities and hangars occupied by the Philippines Air Force (PAF).

CIA is equipped with the followings navigational and landing aids:

- D-VOR and DME (Doppler – VHF Omnidirectional Range and Distance Measuring Equipment),
- NDB (Non- Directional Beacon), and
- ILS (Instrument Landing System) on Runway 02R / 20L

Terminal

CIA has one PTB that accommodates both domestic and international traffic. The PTB is located on the Northwest of the runway system adjacent to the North Ramp and has two stands served by PBBs.

The terminal has undergone several phases of expansion and rehabilitation since the hand-over by the US military in 1991 and the conversion to a mixed civil and military airport in 1993. The declared capacity of the current PTB is 4 million passengers per year.

The PTB has 2 levels plus a mezzanine level for airline offices. The ground floor is approximately 20,000sqm and accommodates airline check-in, domestic and international departure facilities as well as all passenger arrival facilities. Domestic and international departure passenger flows are segregated after check-in. Additional departure lounge space (including two CIP lounges) is provided for international passengers on the 2nd level of the terminal over a floor area of around 3,700sqm.

CIAC is currently extending the domestic passenger departure lounge area on the ground floor to accommodate additional gates and seating. The meet and greet area on the ground floor for international passengers is currently undergoing refurbishment.

In terms of retail and food and beverage concessions inside the terminal, there are several small F&B outlets on the first and second floor of the terminal as well as a duty-free store and other smaller stores offering souvenirs. There are some money exchange facilities for international passengers after the baggage reclaim hall.

Additional food and beverage options are available in the 'Clark Airmall', a collection of F&B and retail units opposite the terminal and next to the car park.

Cargo Facilities

CIA does not accommodate any regular or scheduled cargo flights and the volume of belly hold cargo is relatively low. The airport has two facilities that can handle cargo shipments:

- CargoHaus, and
- Clark Aviation Support Services (CASS)

CargoHaus is a freight handling and warehousing company based in Philippines and with facilities in the four main airports of the country. The CargoHaus facility in Clark is adjacent to the passenger terminal building and has an area of 1,800 sqm with direct access to the North Ramp.

CASS is a ground-handling and cargo-handling company that provides also warehousing and export cargo services to its client. CASS facility is in front of the West Ramp and has an area of 180 sqm.

Between 2002 and 2009 United Parcel Services (UPS) used CIA as its southeast Asian hub before it was relocated to China. Clark is still used by UPS as its main hub in the Philippines. All packages from the Philippines are hauled to the UPS hub in China via a daily flight operated with a UPS Boeing 767 or B757. UPS facilities currently occupy a land area of approximately 15,000 sqm 6,000 of which

is a building area with direct access to the West Ramp. The facility could process up to 2,500 packages per hour, but with the downsizing of activities, it is no longer fully utilized.

Federal Express (FedEx) also operates to Clark but does not use any cargo facilities. FedEx uses Clark as an intermediate stop for its flights between China and Taiwan to complete customs requirements. An aircraft stand on the West Ramp is regularly occupied by a FedEx MD-11 at night.

Aircraft Maintenance Facilities

Although no airline is based at the airport, Clark accommodates several Maintenance and Repair Operators (MRO) performing regular A to C checks on civilian aircraft. The current MRO operators are summarized below:

- SIA Engineering Philippines: SIA Engineering Philippines is a subsidiary of SIA Engineering affiliated with the Singapore Airlines group. The company currently operates one hangar for maintenance of A320 and one hangar for maintenance of wide body aircraft
- Metrojet Engineering Clark: Metrojet Engineering Clark is an MRO for business jets. This company currently occupies a rehabilitated aircraft hangar to the west of the PTB. The hangar can accommodate one large business jet (e.g. Gulfstream G-V) or two smaller aircraft.
- Dornier Technology: Dornier Technology provides base maintenance for turboprop aircraft such as Dornier 328 and Cessna single engine aircraft. They also provide line maintenance for Airbus A320 aircraft. Their current location is near the passenger terminal building.
- Asian Aerospace: Asian Aerospace is an MRO based in old Clark air base hangars west of the Passenger Terminal Building that have been rehabilitated. Asian Aerospace currently is licensed to perform maintenance of Philippines registered aircraft and small turboprop aircraft (Turboprop).
- Line Maintenance Operators: CIA Support Services and Lufthansa Technik perform line maintenance activities at Clark without offering base maintenance and aircraft maintenance facilities
- One new hangar is currently under construction to the southeast of the SIA hangar on the Stopway of the former Runway 02L

Project Land

BCDA will deliver the Project Land as described in Annex 3 of the O&M Concession Agreement for the new terminal and any required access roads free and clear.

Revenues and Expenses

CIAC derives revenues from passenger terminal fees as well as parking charges and lease contracts with locators inside the aviation complex. CIAC is also empowered to charge aeronautical fees to the airline but currently waives most of those charges to incentivize more traffic growth. A full schedule of fees is attached as an annex.

Philippine airports except for NAIA are now subject to Open Skies rules. The O&M Concessionaire may negotiate with any airline from any country to fly to and from CIA. There is immense potential to grow this traffic base. There is therefore potential to grow the existing traffic base with ASEAN countries under the Open Skies provisions.

CIAC has been making gross profit margins of roughly 15% for the last two years. Costs are driven primarily by utilities and personnel. The transfer or retention of employees in the turnover of operations to the O&M Concessionaire will have to follow the IFC Performance Standards. CIAC's latest audited financials will be made available in the Data Room as soon as they are completed.

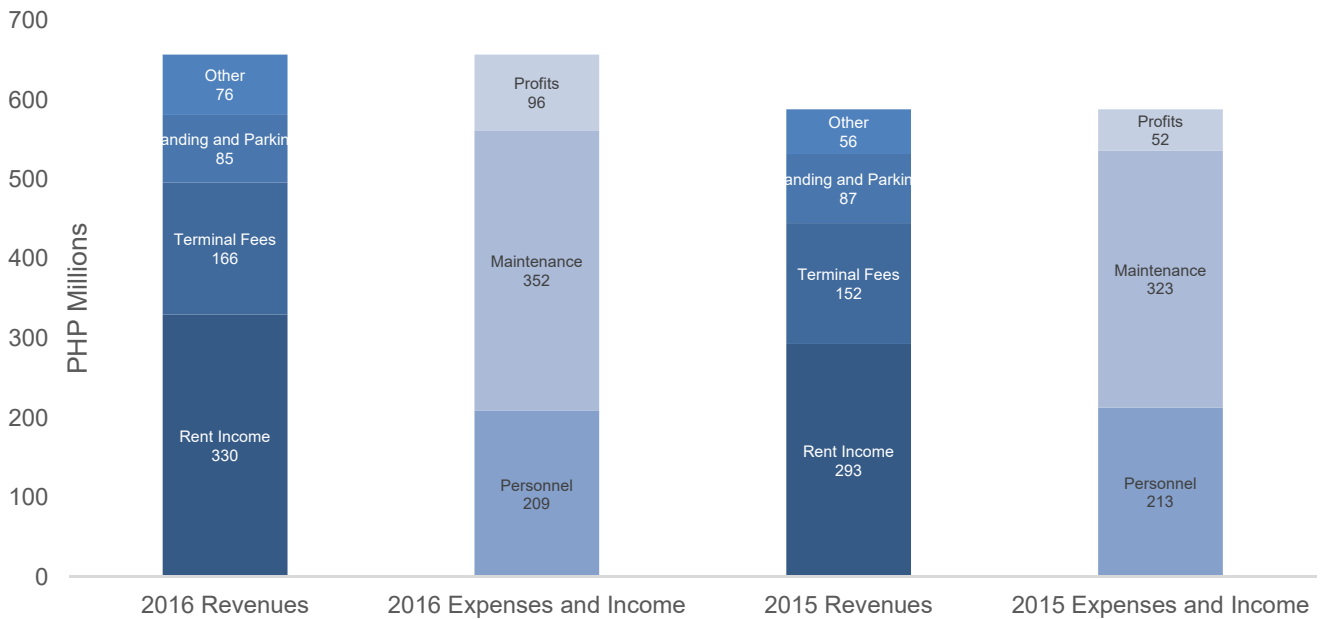


Figure 20: Financial performance of CIAC in 2015 and 2016

NAIA

NAIA remains the country's premiere gateway, but has far exceeded its design capacity leading to frequent delays and cancellations.

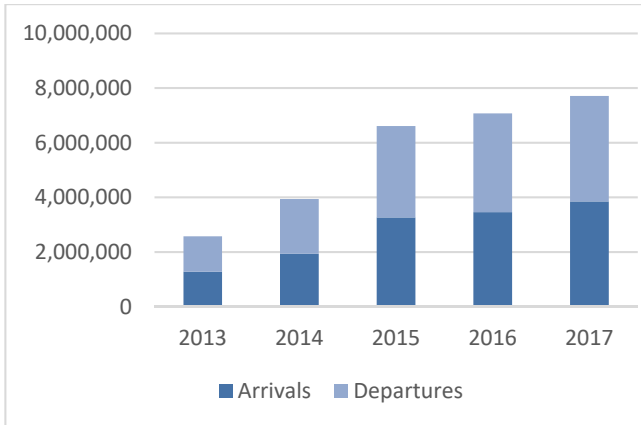


Figure 21: International passenger volume at NAIA



Figure 22: Domestic passenger volume at NAIA

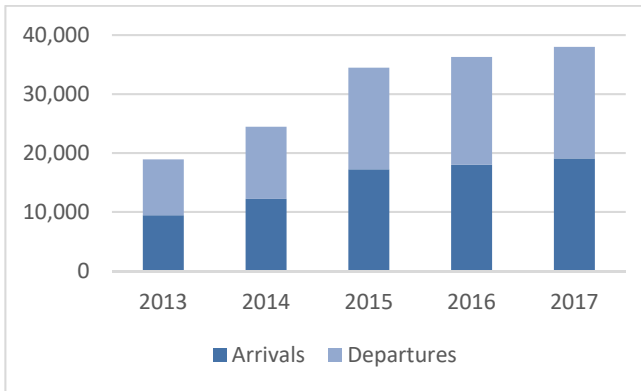


Figure 23: International flight traffic at NAIA

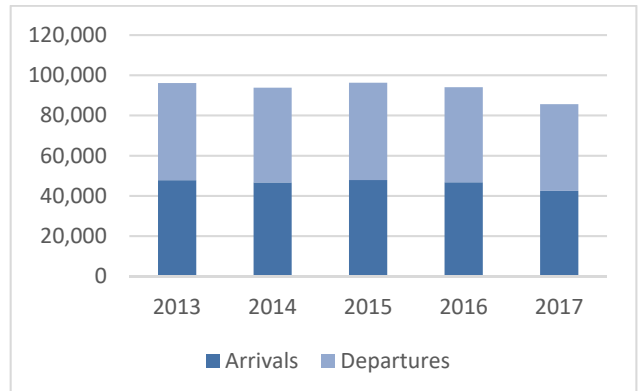


Figure 24: Domestic flight traffic at NAIA

In 2016, however, over 13% of these passengers were bound to or were coming from areas in Northern and Central Luzon, CIA's catchment area.

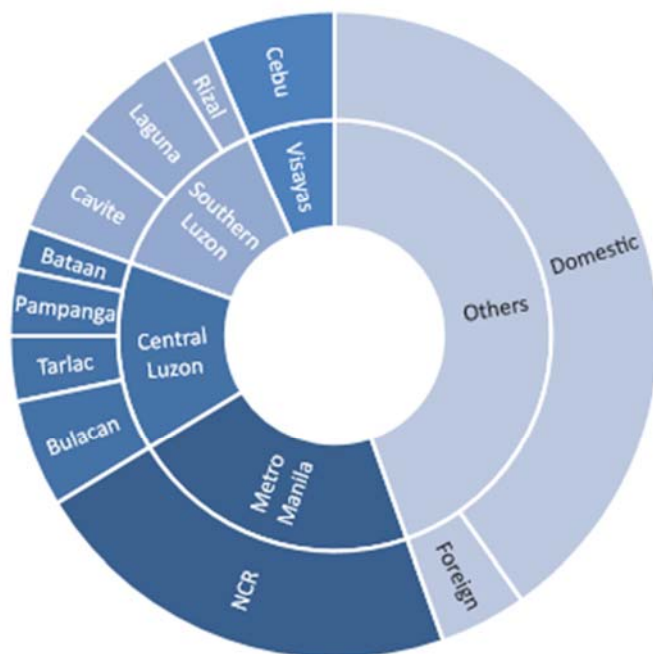


Figure 25: Residence of NAIA Passengers

Investment Narrative

Development of CIA is the only immediate solution to address congestion in NAIA and expand airport capacity serving the GCR. NAIA is running over its design passenger and airside capacity, respectively. The current situation is unsustainable and can significantly undermine the Philippines' competitiveness and economic growth. Currently, flight delays and cancellations have become commonplace, as well as negative passenger experience. Nineteen percent (19%) of NAIA traffic, however, is bound to areas closer to CIA. Having to fly through NAIA adds roughly 4 hours more to passenger travel time, having to pass through the highly congested roads of Metro Manila.

The current situation has become highly inefficient, with airlines and passengers experiencing frequent delays (take-offs and deplaning), unplanned diversions to CIA and cancellations (such as emergency repair of runways in May 2017). NAIA's main constraint for expansion is on the airside, i.e., lack of runway capacity. A new parallel runway would require significant land acquisition of highly-developed urban areas. On the other hand, developing a completely new international airport is estimated to take 10-15 years, likely even more for areas currently being considered that are southwest of Metro Manila which would require massive reclamation works.

Clark has the advantage of good connectivity via quality transport facilities: three expressways – NLEX to Metro Manila, TPLEX to Northern Luzon, and SCTEX/Subic-Tipo to the Subic ecozone, and an international cargo port in nearby Subic. While Clark is 90 km away from Quezon City (city with highest population in Metro Manila) given the traffic conditions, travel time to either airport from Quezon City are roughly similar but also highly variable.

The development of CIA therefore responds to the current urgent capacity constraint in GCR, and appears to be the most cost-efficient solution to augment capacity. It has good airside facilities and considerable land (owned by BCDA) to accommodate future expansions. CIA is expected to absorb traffic from NAIA northbound origins/destinations. Mott MacDonald estimates that the unconstrained traffic to GCR would reach 183 Million passengers by 2050.

There is significant untapped potential to develop commercial activities in the CIA complex as well. BCDA has begun developing New Clark City which is expected to increase the airport's catchment area.

Regional Profile

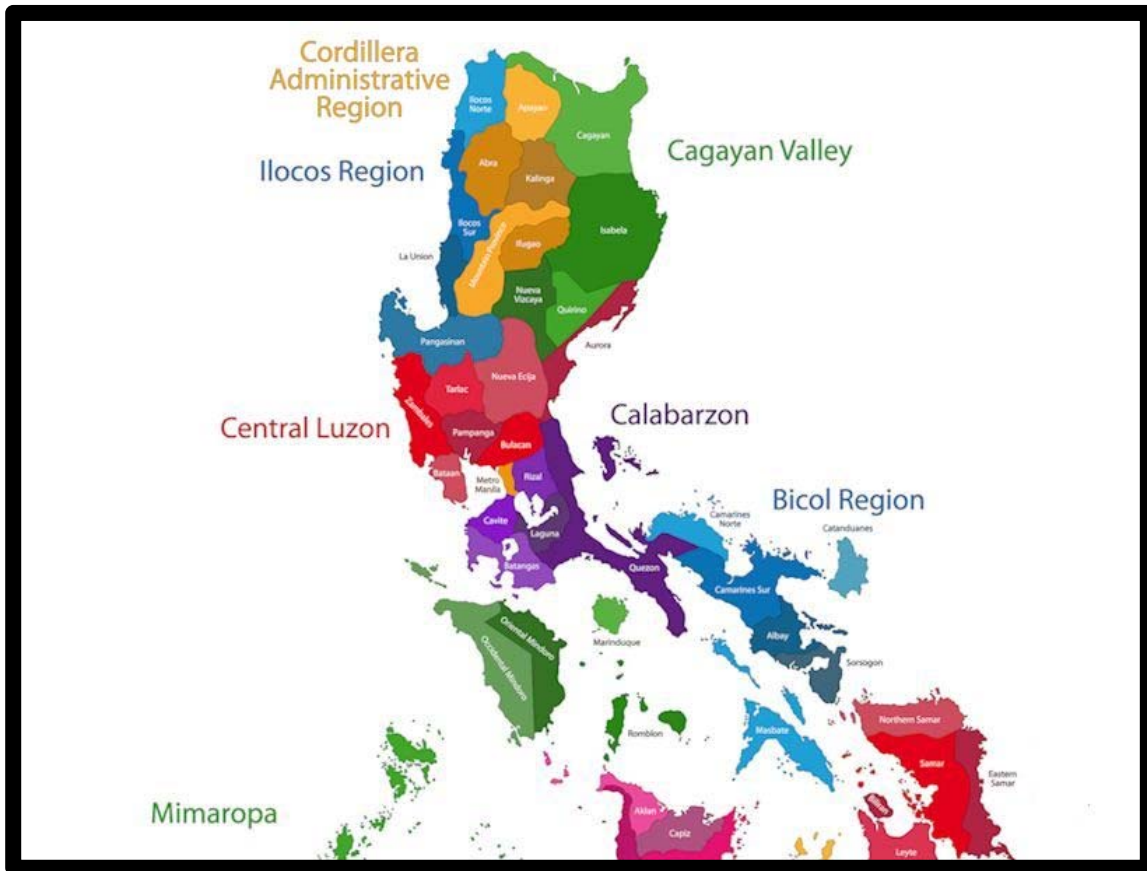


Figure 26: Luzon Region

Luzon is divided into six administrative regions: Cordillera Administrative Region (CAR), Ilocos (Region 1), Cagayan Valley (Region 2), Central Luzon (Region 3), the NCR, Calabarzon and Mimaropa (Region 4), and Bicol (Region 5). Clark’s catchment area spans CAR, Regions 1 to 3, and a portion of NCR.

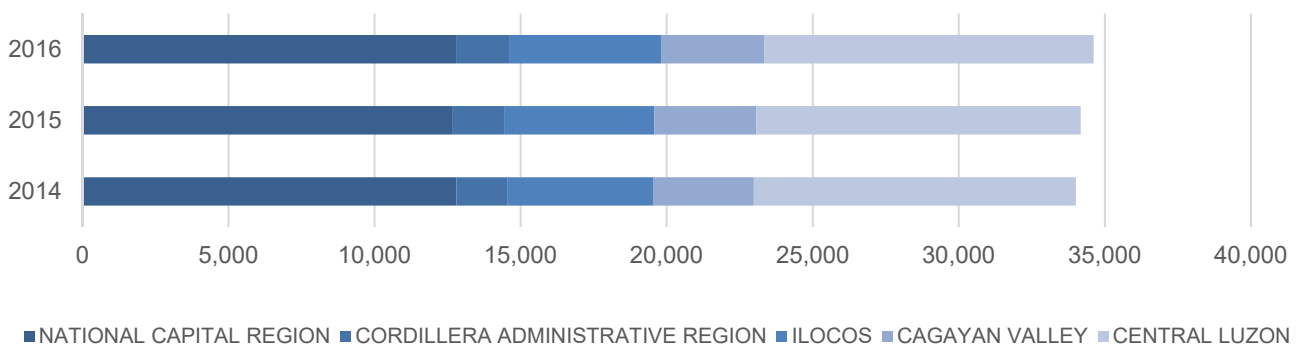


Figure 27: Region wise population

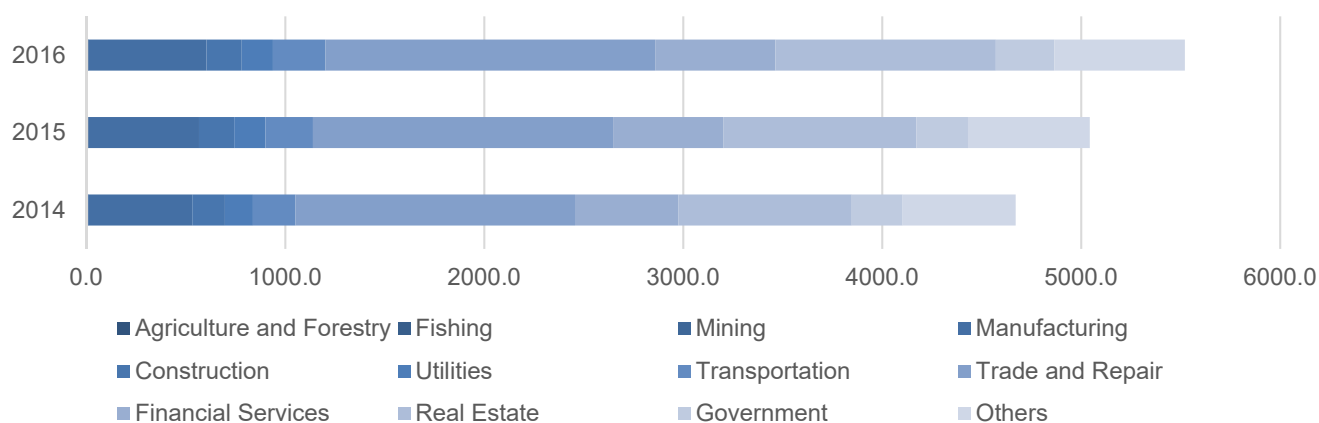
These regions have the most significant contributions to the country’s economic growth and would be able to match NCR’s economic production with government support for infrastructure and industry, one of which is the development of CIA.

Figure 28: NCR GDP (PHP Billions)

CAR: Cordillera Administrative Region

CAR consists of Abra, Apayao, Benguet, Ifugao, Kalinga, Mountain Province, and Apayao. CAR is a prime tourist destination in the country. The relatively cool climate of the region has made Baguio City a popular summer destination. The region is known for its ancient Igorot culture and the many festivals it hosts. The region also features the Banawe Rice Terraces, a UNESCO (United National Educational, Scientific, and Cultural Organization) Heritage Site, the Sagada Mummy Caves; Mount Pulag, the highest mountain in Luzon; and a number of other national parks.

CAR also has nine major rivers that provide water supply for irrigation and energy for the rest of Luzon. The region is rich in mineral resources such as gold, copper, silver, and zinc, as we well as



non-metallic reserves such as sand, gravel and sulfur. While mining is a substantial part of CAR’s economic output, this is concentrated mostly in Benguet. Most of the Cordillera population engage in farming products that will grow only in CAR’s cool climate – around 300 varieties of rice, coffee, fruits, and vegetables.

Baguio Economic Zone also propels Cordillera’s economy through the production of semiconductors and other electronics – some of the country’s top exports. Other exports include ethnic woodcarving and hand-woven materials.

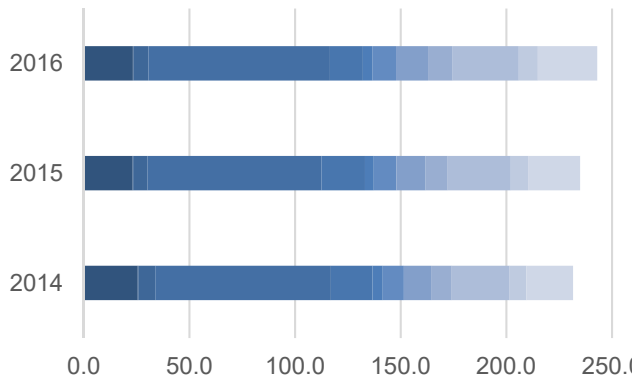


Figure 29: CAR GDP (PHP Billions)

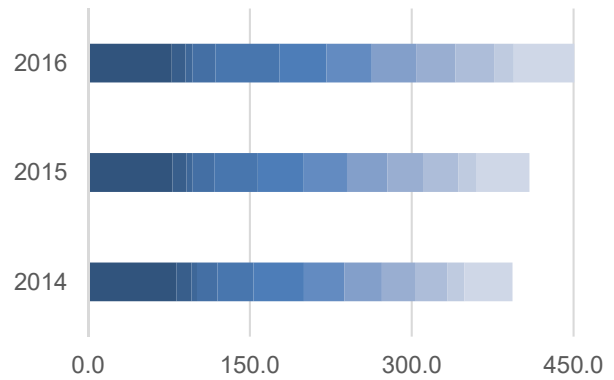


Figure 30: Region 1 GDP (PHP Billions)

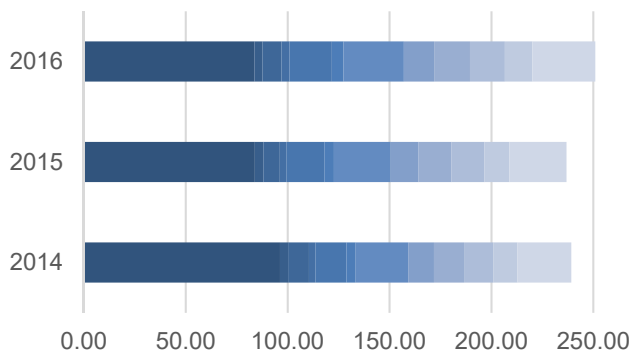


Figure 31: Region 2 GDP (PHP Billions)

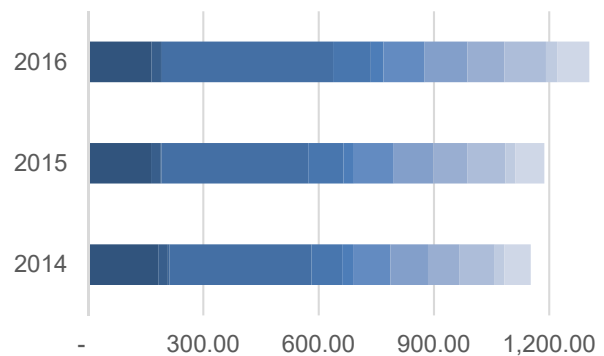


Figure 32: Region 3 GDP (PHP Billions)

R1: Ilocos Region

Region 1 is composed of Ilocos Norte, Ilocos Sur, La Union, and Pangasinan. The economy is driven primarily by agriculture and services. The most common agricultural products include – meat, tobacco, corn, sugarcane, and fruit. The region also has significant tourism potential with a number of beaches, churches, historical sites, and eco-tourism destinations.

R2: Cagayan Valley Region

Region 2 includes Batanes, Cagayan, Isabela, Nueva Vizcaya, and Qurino. It also has significant mineral resources, most of which are yet untapped. Economic activity is mostly driven by agriculture and light industry. The provinces are trying to develop its own IT-BPO (Information Technology-Business Process Outsourcing) hubs, given its position at the northernmost part of the Philippines, fiber optic cables and other IT instruments would cheaper to install. It has significant eco-tourism potential especially in Batanes.

R3: Central Luzon

Central Luzon is envisioned to be the industrial heartland of the Philippines. It is home to a number of industrial estates and economic zones with highly reliable access to utilities, telecommunications, ports, and road networks. Central Luzon’s geography is so strategic that the US military bases were set up in it.

Travel and Tourism

Travel and tourism accounts for a more significant portion of expenditures in the Philippines compared to its peers. The World Travel and Tourism Council (WTTC) estimates that the Philippines will be 11th in the world in terms of growth of travel and tourism's contribution to Gross Domestic Product (GDP). WTTC estimates tourism's direct contribution to the economy at US\$25 Billion in 2016. Visitor exports generated US\$6.7 Billion and is forecasted to grow by 11.1% in 2017.

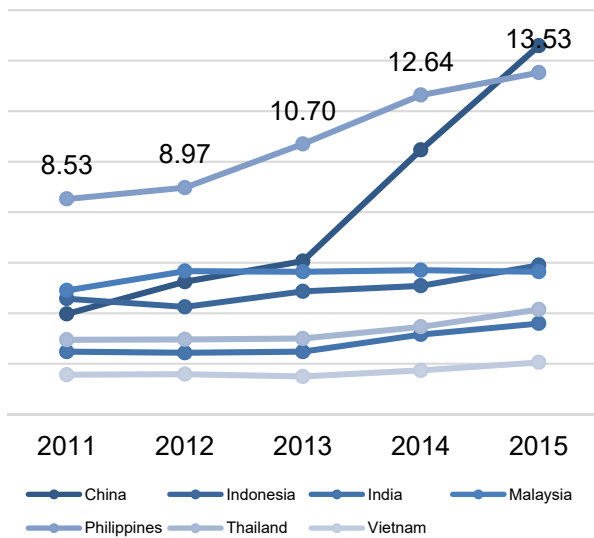


Figure 33: Tourism Expenditures (% of GDP)

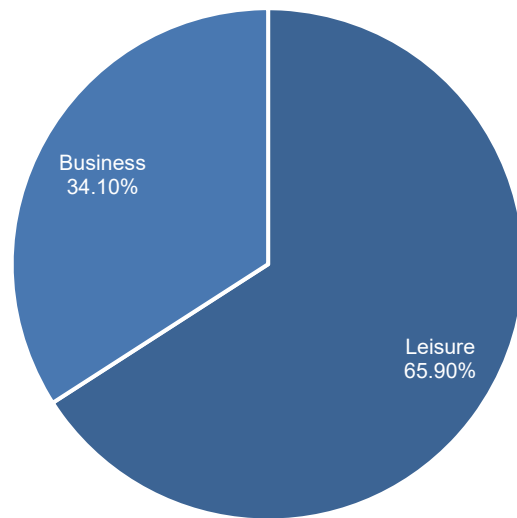


Figure 34: Travel Spending

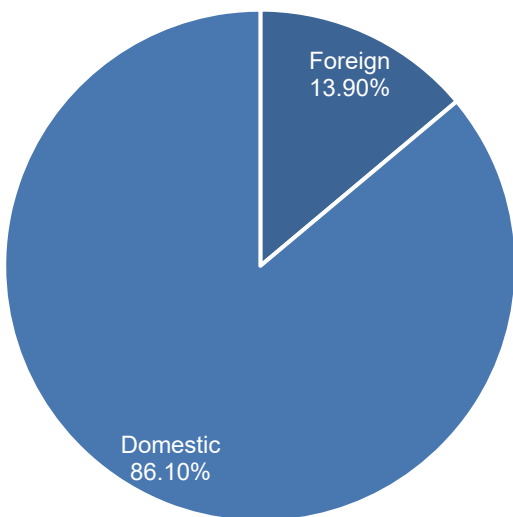


Figure 35: Travel Spending

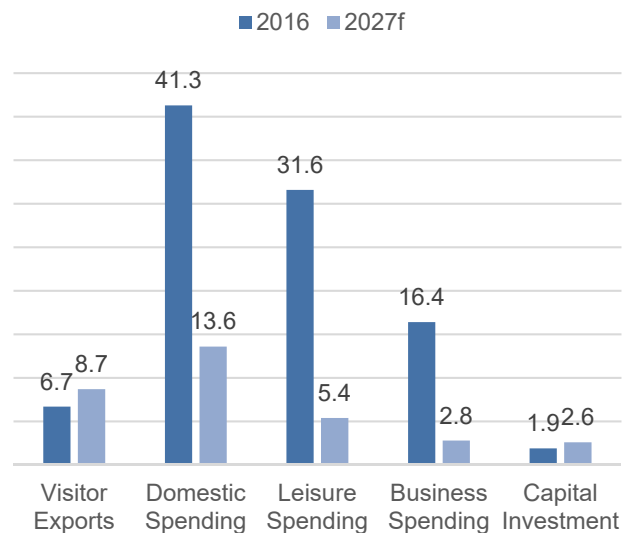


Figure 36: Tourism Spending (US\$ Billions)

Source: WTTC

Tourism arrivals in the Philippines have increased at a 9.7% Compound Annual Growth Rate (CAGR) from May 2013 to May 2017. Visitors come primarily from neighboring Asian countries and go through NAIA. In 2016 CIA was the third busiest airport in the country for international passenger operations next to NAIA, and Mactan-Cebu, and Kalibo.

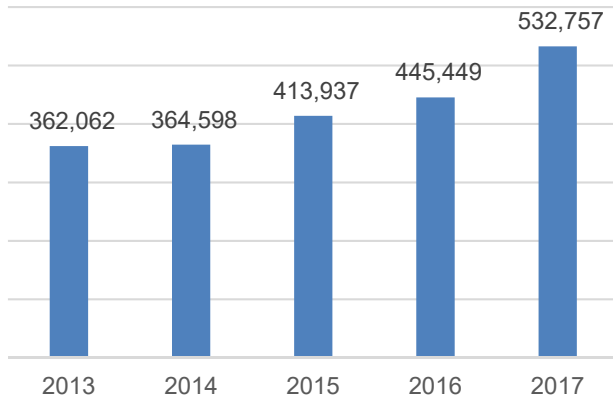


Figure 37: International Arrivals (May 2013-2017)

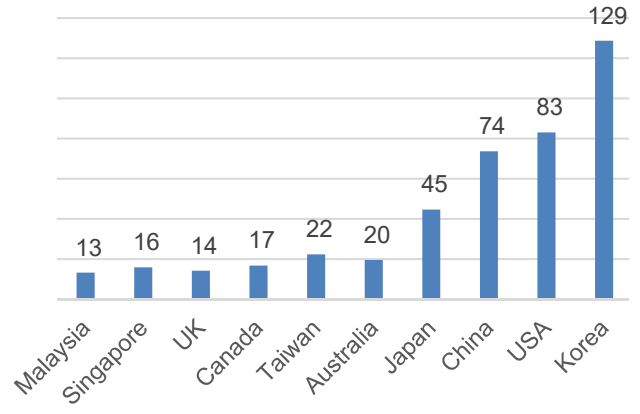


Figure 38: Top 10 Visitors by Origin (in thousands, May 2017)

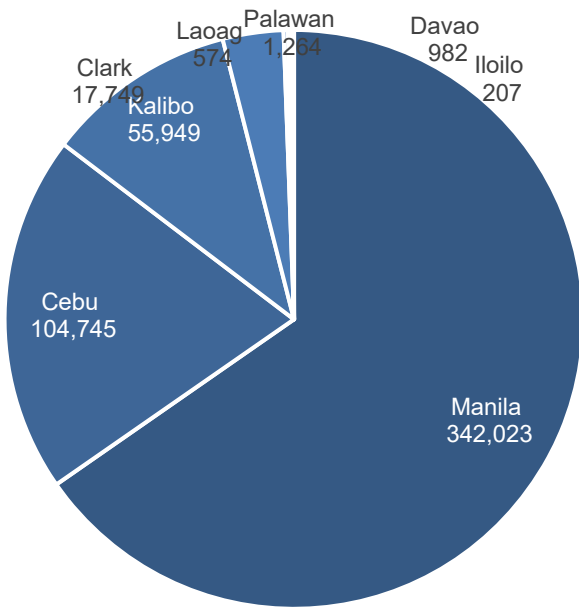


Figure 39: Visitor Arrivals by point of entry (May 2017)

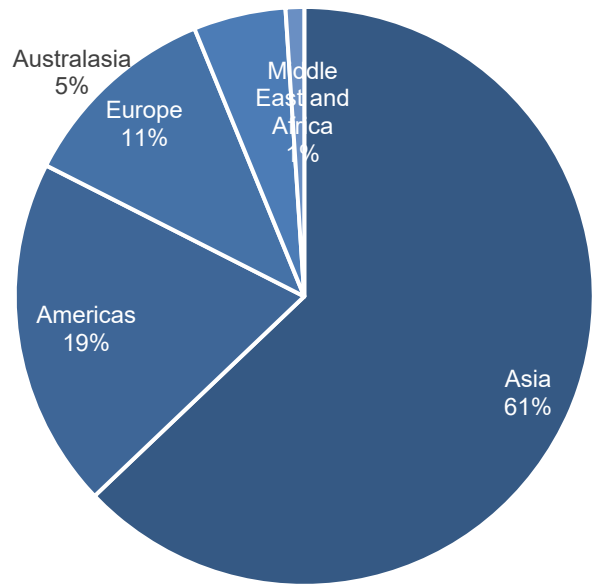


Figure 40: Visitor Arrivals by Origin (May 2017)

The Department of Tourism has identified 6 tourism clusters in North and Central Luzon as part of its National Tourism Development Plan.

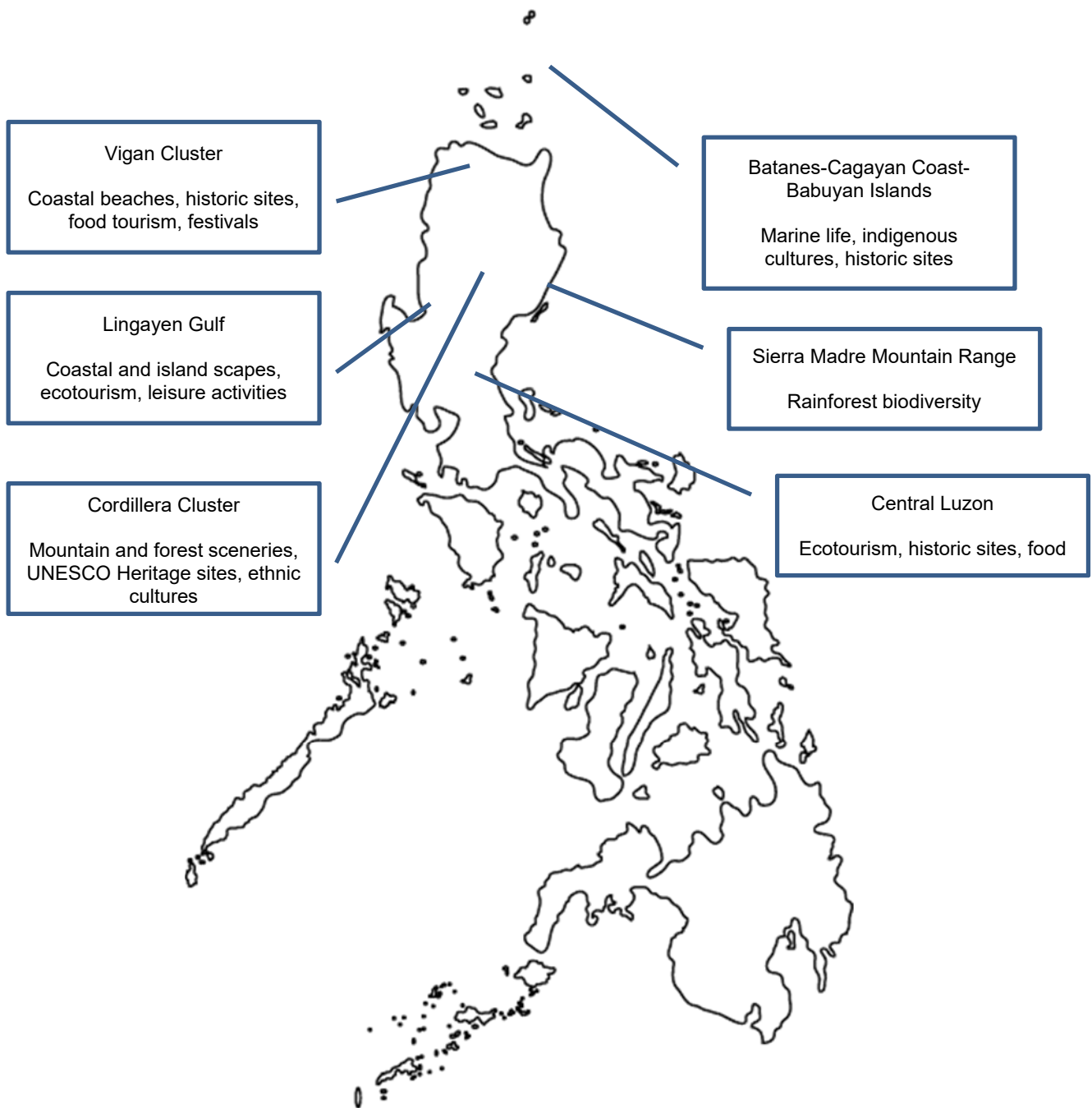


Figure 41: Tourism clusters under National Development Plan

BCDA Projects

Metro Manila will still very likely be the core commercial and administrative capital of the country, but the government is actively trying to grow some urban hubs outside NCR to decongest Metro Manila.

BCDA is currently developing the New Clark City, formerly known as Clark Green City (CGC), a 9,450-hectare development within the Clark Freeport Zone.

This development is expected to mobilize both public and private investments and will host districts catering to government, business, the academe, agri-forestry development, wellness, and eco-tourism. Some government agencies such as the DOTr have already begun to move its offices to Clark.

With Clark International Airport, Subic Seaport, Manila Clark Railway, and SCTEX, New Clark City is connected to the rest of the country and the world by air, land, and sea. New Clark City will accelerate urban as well as industrial development in Central and Northern Luzon, functioning as an independent city with connections to international growth centers. *(Note: The implementation of the Manila to Clark Railway Project and other Interconnectivity projects will not be a commitment of BCDA to the O&M Concessionaire.)*



Figure 42: New Clark City

Trade

Merchandise exports constitute a significant portion of the country's GDP. Locators and logistics firms in CIA can have a significant share of this market, especially considering the tax incentives and the strategic infrastructure assets connected to CIA.

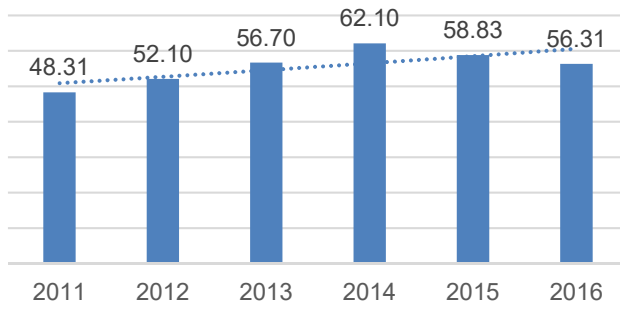


Figure 43: Merchandise Exports (US\$ Billions)

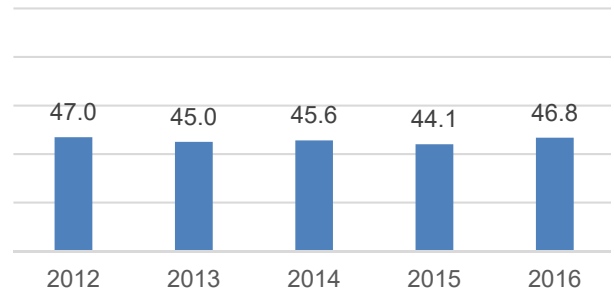


Figure 44: Merchandise exports to GDP (%)

Relevant Agencies

BCDA

The procuring agency for the Clark International Airport Project would be the BCDA. To be eligible as an implementing agency under Republic Act No. 6957, as amended by Republic Act No. 7718 (*BOT Law*), a government entity must be first authorized by law or its charter to undertake infrastructure or development projects. Republic Act No. 7227 (Bases Conversion and Development Act of 1992) (*R.A. No. 7227*) mandates the BCDA to encourage the active participation of the private sector in developing the Clark Freeport Zone (*CFZ*) and Clark Special Economic Zone (*CSEZ*). Under the law, the BCDA has the power to construct, own, lease, operate and maintain public utilities as well as infrastructure facilities, such as the Clark International Airport, which is within the CFZ.

DOTr

The DOTr is the department of the government, which is the primary policy, planning, programming, coordinating, implementing, and administrative entity on the promotion, development, and regulation of a dependable and coordinated network of transportation systems. Under Executive Order (EO) No. 14, series of 2017 (*EO 14*), the DOTr has full regulatory and operational control over the operations of Clark International Airport.

CAAP

The CAAP is responsible under Civil Aviation Authority Act of 2008 (*R.A. No. 9497*), as amended, for regulating civil aviation in the Philippines. The CAAP exercises regulatory safety oversight functions by, in part, developing and promulgating appropriate clear and enforceable aviation safety standards.

By virtue of the powers vested in the Director General of CAAP under R.A. No. 9497 Section 25 Chapter V, Section 21 Chapter III, Section 35 (a) Chapter VII, and Section 55 of Chapter IX, CAAP issued Civil Aviation Regulation governing Aerodromes (*CAR-Aerodromes*), which provides regulatory requirements to aerodromes operating in the Philippines. One of the requirements in operating an aerodrome is the Aerodrome Certificate, which is issued by the CAAP after the requisites under the CAR-Aerodromes have been met.

CDC

See discussion on CDC under Local Government Powers below.

CIAC

The Clark International Airport is currently being operated by the CIAC, a subsidiary of BCDA pursuant to Section 2 of EO 14. Its primary mandate is to operate and manage the Clark Civil Aviation Complex, which houses the Clark International Airport. It is responsible for the Clark International Airport's aviation activities, aviation-related services, and aviation-related logistics activities.

Structural Reforms

The BOT Law and its 2012 Revised Implementing Rules and Regulations (*IRR*) are the primary legal framework for *PPP* in the Philippines. The BOT Law provides the state's policy, which is to recognize the indispensable role of the private sector as the main engine for national growth and development. It further declares that the government shall provide the most appropriate incentives to mobilize private resources for the purpose of financing the construction, operation and maintenance of infrastructure and development projects normally financed and undertaken by the Government of the Philippines.

Under the previous administration, one of the more popular contractual PPP variants for infrastructure projects under the BOT Law was the *BOT* scheme. Under the BOT mode, the private Project proponent would be tasked to construct an infrastructure facility, and upon completion, operate such facility within a specific concession period. The Project is being implemented under a "hybrid" PPP variant. Under this proposed variation, the government intends to build infrastructure projects using government funding and later bid out the operation and maintenance to the private sector. The Project is the first infrastructure project under the current administration to implement the government's desire to move towards hybrid PPPs.

Procurement Framework: BOT Law

The BOT Law provides the legal framework for government agencies to enter into PPP contracts with qualified private sector proponents for the implementation of government infrastructure or development projects. In particular, the BOT Law and its Revised IRR describe the requirements and procedures for the preparation, approval, tendering and implementation of PPP projects.

An O&M contractual arrangement is being evaluated/considered for this Project. Under this proposed structure, the project proponent will operate and maintain the existing airport and subsequently undertakes the financing and fit-out of the facility developed by Megawide-GMR. The O&M Concessionaire will collect regulated fees from the public and airlines for services provided and will be expected to share a percentage of gross revenues with BCDA.

A single stage bid process will be used in accordance with the rules and procedures for public bid set out in the BOT Law and its IRR. In a single stage bid, the bidders are asked to submit their proposal in three envelopes; the first envelope — the qualification documents; the second envelope — the technical proposal; and the third envelope — the financial proposal. This is different from a dual stage bid process, where prospective bidders are first asked to pre-qualify by submitting pre-qualification

documents. After pre-qualification, the bidders are asked to prepare and submit their actual bids, consisting of their technical and financial proposals.

BOT Contracts in the Philippines

The BOT Law and its IRR provide different PPP contractual arrangements: build-transfer (BT), build-operate-transfer (BOT), build-own-operate (BOO), build-lease-transfer (BLT), build-transfer-operate (BTO), contract-add-operate (CAO), develop-operate-transfer (DOT), rehabilitate-operate-transfer (ROT), and rehabilitate-own-operate (ROO). Additional contractual arrangements, with the approval of the President of the Philippines, may also be used for undertaking infrastructure projects.

The following contractual arrangements were used for previous airport development projects under the BOT Law: BOT for the Mactan-Cebu International Airport Passenger Terminal Project (currently being implemented); operate-add-transfer (OAT) scheme for the Airport Development, Operations and Maintenance for the Bacolod-Silay, Davao, Iloilo, Laguindingan, and New Bohol (Panglao) Airports Project (aborted in May 2017); and ORAT for the Ninoy Aquino International PPP Project (currently under review).

Consistent with the current administration's policy on hybrid PPPs, the design and construction of Clark International Airport New Terminal Building Project shall be undertaken using the BT scheme.

Local Government Powers

Taxation

Republic Act No. 7160, as amended, or the Local Government Code allows local government units (LGUs) to impose local and real property taxes.

For local business taxes, business enterprises are required to pay local business tax on the amount of gross sales or receipts of a business establishment for the preceding year using the rates of taxes provided under a specific ordinance issued by the LGU for each type of business. While LGUs can impose different tax rates, the rate should not exceed three percent (3%) of the business's gross sales or receipts of the preceding calendar year.

The Clark International Airport is located in Mabalacat City, Pampanga. Based on the city's Revenue Code (Tax Ordinance No. 77-05, series of 2005), the local business tax for contractors and other independent contractors with gross sales or receipts of PHP 2,000,000.00 or more for the preceding calendar year is currently at the rate of fifty-five percent (55%) of one percent (1%) or PHP 10,997.00, whichever is higher. For multiple-year projects undertaken by general engineering, general building, and specialty contractors, the tax shall initially be based on the total contract price, payable in equal annual installments within the project term. Upon completion of the project, the taxes shall be recomputed on the basis of the gross receipts for the preceding calendar years and the deficiency tax, if there be any, shall be collected.

Real property taxes, on the other hand, are taxes levied on real properties, such as land, buildings, machinery and other improvements affixed or attached to real properties not specifically exempted under the law. The tax rates vary per LGU as it is fixed by the respective provincial or city council. Nonetheless, the Local Government Code imposes a ceiling of two percent (2%) for cities plus one percent (1%) for special education fund or a maximum of three percent (3%) of the fair market value of the property, based on an assessment level set by the LGU.

According to the City Assessor's Office of Mabalacat City, the current rates for the city as follows: real property tax – two percent (2%) and contribution to the special education fund – one percent (1%).

CDC

The CDC is the implementing arm of BCDA. Pursuant to this, it has the power to fix, assess and collect fees for the issuance of permits that must be acquired in order to locate and/or operate in the CFZ. Most applications for licenses or permits usually undertaken by the LGUs are handled by the CDC. These include the business registration, clearing and building permits, fire safety clearances, and electrical and water inspections and permits, among others.

Taxes and Duties

Republic Act No. 8424, as amended, or the National Internal Revenue Code governs the Philippine tax regime. National (internal revenue) taxation is administered by the Bureau of Internal Revenue (BIR). In addition, customs duties are administered by the Bureau of Customs, while local taxes are administered by the concerned LGUs.

Corporate Income Tax

Corporate income tax is a tax to be paid by a corporation based on the amount of income generated. Regular corporate income tax (RCIT) of thirty percent (30%) is imposed on a corporation's taxable income derived during each taxable year from all sources within the Philippines (for non-resident foreign corporations) or within and without the Philippines (for domestic and resident foreign corporations). Beginning the fourth taxable year following the year of commencement of business operations, a minimum corporate income tax (MCIT) of two percent (2%) of the gross income will be imposed on a corporation when the MCIT is greater than RCIT. Any excess of the MCIT over RCIT shall be carried forward and credited against the RCIT for the three (3) immediately succeeding taxable years. The applicability of various taxes and associated incentives will be determined by the O&M Concessionaire.

In addition, Improperly Accumulated Earnings Tax (IAET), which is a 10% tax imposed on the improperly accumulated earnings of a corporation (except in the case of publicly held corporations, banks, and other non-bank financial intermediaries and insurance companies), may be imposed when a corporation allows its earnings or profit to accumulate beyond its reasonable needs.

Withholding Tax

Certain income payments are subject to expanded withholding tax (EWT) equivalent to the rates prescribed by tax regulations. This EWT is required to be withheld and remitted to the BIR by the

payor of the income, and such EWT is creditable against the income tax due of the payee for the taxable quarter or year in which the particular income was earned. Under tax regulations, income payments to contractors are subject to a two percent (2%) EWT, which must be withheld by the payor at the time of payment, and must be remitted to the BIR within ten (10) days following the end of the month where the payment was made.

Moreover, all employers are also required to withhold and remit to the BIR a withholding tax on the compensation paid to its employees (*WTC*) subject to the graduated rates prescribed under tax regulations. Said WTC is creditable against the income tax due of the employee for the taxable year in which the concerned compensation is earned.

Value-Added Tax

Value-Added Tax (*VAT*) is a tax on consumption levied on the sale, barter, exchange or lease of goods or properties and services in the Philippines and on importation of goods into the Philippines.

Any person who, in the course of trade or business, sells barter, exchanges, leases goods or properties, renders services, and any person who imports goods shall be subject to VAT equivalent to twelve percent (12%) of the gross selling price or gross value in money of the goods or properties sold, bartered or exchanged, such tax to be paid by the seller or transferor; or of gross receipts derived from the sale or exchange of services, including the use or lease of properties. Being an indirect tax, VAT may be shifted or passed on to the buyer, transferee or lessee of goods, properties, or services

Entities covered by VAT are required to issue a VAT invoice or a VAT official receipt for every sale and, in addition to regularly required accounting records, they must maintain subsidiary sales and purchase journals exclusively for VAT purposes.

Tax Treaties

The Philippines has tax treaties with various countries providing tax relief on income derived by foreign or local residents of the Philippines and the foreign country from sources within their respective territories. The reliefs include tax exemption or entitlement to preferential tax rates on certain types of income such as interest, royalties and dividends. Further, the business profits of a resident of another country with whom the Philippines has a tax treaty are taxable in the Philippines only if the resident has a permanent establishment in the Philippines to which the profits are attributable.

As of March 2018, the Philippines has a total of forty-one (41) effective tax treaties.

Customs Duties

Customs duties are taxes on the importation and exportation of goods. Under Republic Act No. 1937, as amended, or the Tariff and Customs Code, goods, when imported from any foreign country into the Philippines, are generally subject to duty upon each importation even through previously exported from the Philippines. Customs duties in the Philippines are usually calculated ad valorem (in proportion to the estimated value of the goods) and based on the rates specified in the Tariff and Customs Code.

Clark International Airport is located within the CFZ, which is operated and managed as a separate customs territory. Thus, locators who are granted incentives in the CFZ shall enjoy tax and duty-free importation of capital equipment and raw materials. In this regard, goods exported by locators in the CFZ enjoying tax incentives shall not be subject to the customs duties under the Tariff and Customs Code unless these goods are brought out from the CFZ to other parts of the Philippines.

Aviation Law

R.A. No. 9497, its IRR, and Republic Act No. 776 (*CAB Law*) provide the regulatory framework on civil aviation in the Philippines. Under R.A. No. 9497, the CAAP has jurisdiction over restructuring of the civil aviation system, the promotion and development and regulation of technical, operational, safety and aviation security functions. Further, the CAAP exercises regulatory oversight by developing and promulgating appropriate, clear and enforceable aviation safety standards. By virtue of its authority under R.A. No. 9497, the CAAP issued the CAR-Aerodromes and the Manual of Standards for Aerodromes (*MOS*) to ensure the safety regulation of aerodromes. The MOS prescribes the detailed technical requirements (aerodrome safety standards) that have been determined by the CAAP to be necessary for promoting and supporting aviation safety in the Philippines, while the CAR – Aerodromes provides regulatory requirements to airports operating in the Philippines.

The Philippines, along with 190 other states, is a signatory to the Convention on International Civil Aviation (7 December 1944) (the "*Chicago Convention*"), which sets out principles and arrangements for the safe and orderly development of international civil aviation. Through the Chicago Convention, the International Civil Aviation Organization (*ICAO*) was established to adopt and amend international standards and recommended practices on aviation, including characteristics of airports. The ICAO issues international standards and recommended practices (*SARPs*) which are annexed to the Chicago Convention. The Philippines adopts and implements the SARPs issued by the ICAO insofar as these are not inconsistent with the standards established under the MOS. The differences between the SARPs and the MOS are published in the *Aeronautical Information Publication (AIP)* Philippines.

On the other hand, under the law, the CAB is the government agency in charge of regulating the economic aspect of air transportation. It exercises general supervision and regulation of, the jurisdiction and control over air carriers, general sales agents, cargo sales agents, and air freight forwarders as well as their property, property rights, equipment, facilities and franchise.

User Fee Regulation

BCDA's subsidiary, CIAC, provides user fee regulation for the Clark International Airport. Under CIAC's By-Laws, the CIAC Board of Directors is empowered to undertake and regulate the establishment, operation and maintenance of business services, building construction and operational facilities within the Clark Civil Aviation Complex and fix just and reasonable rates, charges and other prices related to this function. The base user fees and subsequent adjustment for inflation (for the first

ten years of the O&M Concession) will be ratified by CIAC and have been provided in the Operation & Maintenance Concession Agreement.

Environmental Regulation

The following environmental laws and their respective implementing rules and regulations provide the environmental policies and standards that are applicable to airport projects and operations:

- Environmental Impact Assessment (EIA) in the Philippines was originally conceived in 1977 with the issuance of the Presidential Decree 1151, or the Philippine Environmental Policy. This law mandates all national government agencies, including government-owned and controlled corporations, as well as private corporations, firms and entities to prepare an Environmental Impact Statement (EIS) for any project or activity that significantly affects the quality of the environment. The EIA System in the Philippines was officially established under Presidential Decree No. 1586 (PD 1586). PD 1586 also provides that no person, partnership or corporation shall undertake or operate any such declared environmentally critical project or area without first securing an Environmental Compliance Certificate (ECC).
- The CDC provides environmental regulatory services to contractors within the CSEZ and the CFZ. The CDC requires all locators and contractors who will operate or are operating within the Clark Civil Aviation Complex to obtain a Certificate of Environmental Compliance, which is issued by CDC's Environmental Permits Division.
- Further, the CDC, through its Environmental Permits Division, reviews, processes and makes recommendations for environmental permits applied for by locators and/or contractors. Once the Environmental Permits Division approves applications, these are then endorsed to the Departments of Environment and Natural Resources (DENR) for the issuance of the ECC. The Environmental Management Bureau of the DENR issued an ECC dated March 15, 2010 for the *Diosdado Macapagal International Airport Complex and Terminal Expansion Project Phase* (now known as the Clark International Airport).
- Republic Act No. 8749 known as the Clean Air Act imposes fines and penalties against entities which are sources of air pollutants. This presupposes the inclusion of emissions from aircraft engines.
- Republic Act No. 9275 known as the Clean Water Act aims to abate and control water pollution from land based sources and provides for the imposition of fines and penalties against any person caught violating this law and its rules.
- Republic Act 9003 known as the Ecological Solid Waste Management Act provides the procedures and guidelines for systematic, comprehensive and ecological solid waste management program. The operator shall be held responsible for non-compliance to the provisions of this law.

- IFC's Environmental and Social Performance Standards define responsibilities for IFC's advisory clients to avoid, mitigate, and manage risks and impacts as a way of undertaking infrastructure projects in a sustainable way, including stakeholder engagement and disclosure. The obligations of both the O&M Concessionaire and BCDA will be clearly defined in the Bid Documents. Some of the obligations identified for the O&M Concessionaire under IFC's Performance Standards include commissioning of a qualified and accredited Fire Protection Engineer (FPE), performing a risk-based Life & Fire Safety review and development and implementation of an Environmental and Social Management System (ESMS) in accordance with the requirements set forth in the Bid Documents.

Labor Laws

Presidential Decree No. 442 (*Labor Code*), its Implementing Rules and Regulations, and relevant issuances from the Department of Labor and Employment (*DOLE*) provide the policy on labor and employment. Unless provided otherwise in the Labor Code, all the rights and benefits granted to workers under the law shall apply to all workers without distinction.

Contracting or subcontracting are regulated under Philippine labor laws. "Contracting" or "subcontracting" is defined under Department Order No. 174, series of 2017 (*DO 174-17*), as an arrangement whereby a principal agrees to farm out to a contractor the performance or completion of a specific job or work within a definite or predetermined period, regardless of whether such job or work is to be performed or completed within or outside the premises of the principal.

DO 174-17 provides that contracting or subcontracting arrangements in the construction industry under the licensing coverage of the Philippine Contractors Accreditation Board (*PCAB*) shall be governed by Department Order No. 19, Series of 1993 (Guidelines Governing the Employment of Workers in the Construction Industry); Department Order No. 13, Series of 1998 (Guidelines Governing the Occupational Safety and Health in the Construction Industry); and the DOLE-DPWH-DILG-DTU and PCAB Memorandum of Agreement-Joint Administrative Order No. 1, Series of 2011 on coordination and harmonization of policies and programs on occupational safety and health in the construction industry. In the construction industry, contractors are required under Presidential Decree 1746, series of 1980 (*PD 1746*) to register with the PCAB. The PCAB regulates and ensures that contractors/subcontractors comply with DOLE's Guidelines on Occupational Safety and Health in the Construction Industry. Both the DOLE and PCAB have the authority to cancel or suspend the licenses of contractors who fail to comply with the relevant labor laws.

In addition to labor standards, employers are also required to comply with standard benefits under social welfare laws such as Republic Act No. 1161 as amended by Republic Act No. 8282 known as the Social Security Law, Republic Act No. 9679 known as the Home Development Mutual Fund Law, and Republic Act No. 7875 known as National Health Insurance Act.

Penalties and even the risk of imprisonment are imposed against employers who do not comply with labor standards under the Labor Code as well as social welfare laws.

The IFC Performance Standards also require obligations for protection of employees which have been detailed in length in the Bid Documents.

Investment Incentives

Under the BOT Law, PPP projects costing more than PHP 1 billion shall be entitled to incentives provided in Executive Order No. 226 or the Omnibus Investments Code (EO 226) upon registration with the Board of Investments (BOI). One key incentive is the exemption from payment of income taxes upon the scheduled start of commercial operations. Such tax exemption may be for a period of six (6) years, for pioneer enterprises, or four (4) years for non-pioneer enterprises from the start of commercial operations, as may be determined under the Omnibus Investments Code.

Other fiscal and non-fiscal incentives include: (a) zero percent (0%) duty rate on imported capital equipment, spare parts, and accessories; (b) simplification of customs procedure with respect to the importation of equipment and spare parts; (c) employment of foreign nationals for supervisory, technical, or advisory positions for five years from date of registration with the BOI; and (d) for foreign-owned registered enterprises, non-applicability of the five-year limitation on the employment of foreign nationals for the positions of President, General Manager, and Treasurer.

BOI Memorandum Circular No. 2017-004 (General Policies and Specific Guidelines to Implement the 2017 Investment Priorities Plan) provides that the qualification for registration of airport PPP projects with the BOI shall be based on the government's infrastructure and development policy and other relevant plans. Further, any application for registration must be accompanied by an endorsement from the CAAP.

The BCDA does not guarantee that the winning bidder will be granted these incentives.

Clark Freeport Zone

The CFZ was created under R.A. No. 9400 and covers the following areas: the former Clark Air Base proper with an area of not more than four thousand four hundred hectares (4,400 has.), with the exception of the twenty-two-hectare commercial area situated near the main gate and the Bayanihan Park consisting of seven and a half hectares (7.5 has.) located outside the main gate of the CSEZ.

The CFZ is operated and managed by the Clark Development Corporation, a subsidiary of the Bases Conversion and Development Authority. The CFZ is a separate customs territory, ensuring free flow or movement of goods and capital equipment within, into and exported out of the CFZ. Further, Department of Finance Department Order No. 03-08, issued in February 13, 2008, provides for the following incentives for freeport and special economic zone enterprises, such as (a) 5% special tax on gross income and exemption from all national and local taxes; (b) tax and duty-free importations of raw materials and capital equipment; (c) exemption from real property tax; and (d) free flow or movement of goods and capital equipment within, into, and exported from the Freeport or the Special Economic Zone.

The BCDA does not guarantee that the winning bidder will be granted these incentives.

Government Appropriations

R.A. No. 7227, provides that the BCDA is empowered to invest its funds and other assets in such areas it may deem wise.

Corporate and Securities Laws

Corporation Code

The BOT Law IRR provides that a winning project proponent in a PPP project may be required to incorporate with the Securities and Exchange Commission (SEC). Such corporation shall be created and shall assume all the rights and obligations of the winning project proponent. Further, the BOT Law and its IRR also provide that in the case of an infrastructure facility whose operation requires a public utility franchise, the winning project proponent must be Filipino, or if a corporation, must be duly registered with the SEC and owned up to at least sixty percent (60%) by Filipinos.

Batas Pambansa Bilang 68, or the Corporation Code, is the present law governing corporations. Section 2 of the Corporation Code defines a corporation as an artificial being created by operation of law, having the right of succession, and the powers, attributes and properties expressly authorized by law or incident to its existence. Being a juridical entity vested by law with personality, a corporation has specific rights and obligations separate and distinct from its stockholders.

Securities Regulation Code (SRC)

Republic Act No. 8799 was enacted for the purpose of achieving a free-market that is self-regulating. The SRC has mandated the SEC to administer its provisions and rules. The SEC has been vested with powers to regulate, investigate, and supervise the activities of persons to ensure compliance with the law.

On November 9, 2016, the SEC approved the Philippine Stock Exchange's (PSE) proposed supplemental listing and disclosure rules (Listing) applicable to companies engaged in PPP projects. The Listing allows a company to apply for listing with the PSE as long as the PPP project is not less than five billion pesos (PHP 5,000,000,000.00). The PPP Rules were formulated as an anticipatory response to the financing demand for PPP projects.

Foreign Investment Regulations

Omnibus Investments Code of 1987, as amended

The BOI, an attached agency of the Department of Trade and Industry under EO 226, is the lead government agency in the promotion of investments in the Philippines. Pursuant to this function, the BOI prepares an annual Investment Priorities Plan, which contains a listing of economic activities

which are considered priority industries and are encouraged through the grant of incentives. The BOI likewise accepts registration of entities in order to be entitled to incentives, both fiscal and non-fiscal.

The BOT Law expressly provides that PPP projects costing more than 1 billion pesos (PHP 1,000,000,000.00) shall be entitled to the incentives under the Omnibus Investments Code upon registration with the BOI.

Foreign Investments Act of 1991, as amended

Republic Act No. 7042, or the Foreign Investments Act of 1991, as amended, seeks to promote and regulate foreign investments in the Philippines. It introduced the concept of “Negative Lists”, or the lists of investment sectors that are subject to foreign investment ownership restrictions.

For projects requiring a public utility franchise for its operation (such as an airport), in case the prospective project proponent and the Facility Operator are one entity, such proponent must be a Filipino or, if a corporation, must be duly registered with the SEC and owned up to at least sixty percent (60%) by Filipinos. In case the project proponent and the Facility Operator are two separate and independent entities, only the Facility Operator must be a Filipino, or if a corporation, must be duly registered with the SEC and owned up to at least sixty percent (60%) by Filipinos.

Construction Industry

Licensing

The construction industry in the Philippines is primarily regulated by the Construction Industry Association of the Philippines (*CIAP*), a government agency established through Presidential Decree No. 1746, series of 1980, as amended (PD 1746). All foreign and local entities intending to engage in the business of construction are required to secure a license from the CIAP’s licensing arm, the PCAB. There are two types of licenses usually issued by the Philippines’ licensing body: a Regular License or a Special License.

A Regular License authorizes licensees to engage in construction contracting within the scope and field of its license classification for as long as the license is valid. A Regular License is generally reserved for domestic construction firms that are at least 60% owned by Filipinos, while a Regular License with Annotation now allows corporations incorporated in the Philippines, irrespective of foreign ownership, to regularly engage in specific types of construction projects. The Regular License with Annotation is a new sub-category introduced by the PCAB and was approved by the CIAP and the President on November 13, 2015. It may be issued to a domestic corporation, irrespective of equity ownership, with a capitalization of at least One Billion Pesos (PHP1,000,000,000.00) in cash.

Holders of a Regular License shall be categorized in a scale of seven, namely: AAAA (Quadruple A), AAA, AA, A, B, C, and D.

A Special License is issued to a joint venture, consortium, foreign contractor or a project owner, authorizing the licensee to engage in the construction of a single specific undertaking or project. In practice, the PCAB usually issues a Special License to foreign contractors if the project, which is the

subject of the Special License application, is either a foreign financed / internationally-funded project which requires international bidding or allows the participation of foreign contractors, or is a project implemented under the BOT Law.

Holders of a Special License shall be categorized in a scale of seven, namely: AAA, AA, A, B, C, and D, and Trade.

Disputes

The Construction Industry Arbitration Commission (CIA Commission) is “the duly constituted quasi-judicial agency accorded with jurisdiction to resolve disputes arising from construction contracts in the Philippines.” It was created in 1985 under Executive Order No. 1008 (Creating an Arbitration Machinery for the Philippine Construction Industry) (EO 1008), in recognition of the need to establish an arbitral machinery that would expeditiously settle construction industry disputes. EO 1008 provides that the CIA Commission shall have original and exclusive jurisdiction over disputes arising from, or connected with, contracts entered into by parties involved in construction in the Philippines, whether the disputes arise before or after the completion of the contract, or after the abandonment or breach thereof. Based on the CIA Commission Revised Rules of Procedure Governing Construction Arbitration, an arbitration clause in a construction contract or a submission to arbitration of a construction dispute shall be deemed an agreement to submit an existing or future controversy to CIA Commission jurisdiction.

Macroeconomic Growth

The Philippines has shown remarkable economic growth over the last decade. It has sustained annual GDP growth of over 6% since 2012. In 2016, it surpassed India and China's GDP growth and is expected to continue as one of the world's fastest growing economies.

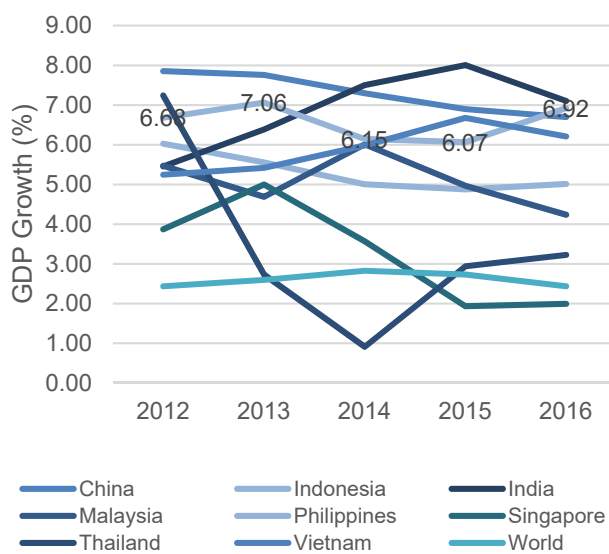


Figure 45: GDP Growth of Philippines vis-a-vis Asian countries

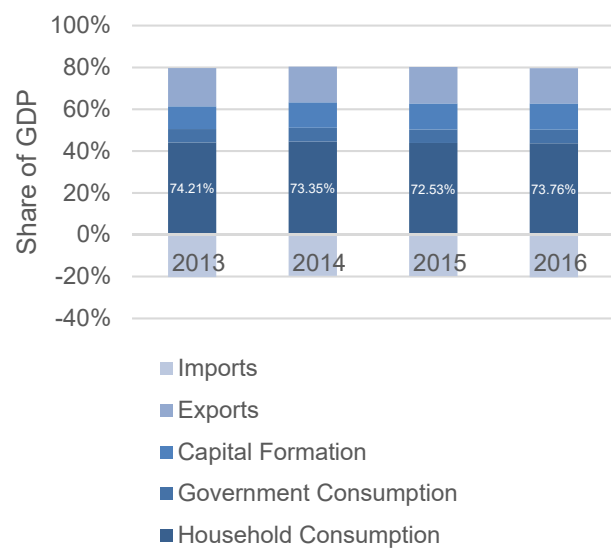


Figure 46: Share of GDP

This economic upheaval has been driven largely by final domestic consumption, with the growing middle class. Remittances from overseas Filipino workers (OFW) and BPO-IT exports have catalyzed this change. This is expected to continue as the Philippines has a significant working age population – increasing at manageable rates – and one that is fluent in English – its competitive advantage. These drivers are also well diversified and are not likely to too vulnerable to specific shocks in other economies. OFW remittances come primarily from the Americas but are well spread out geographically.

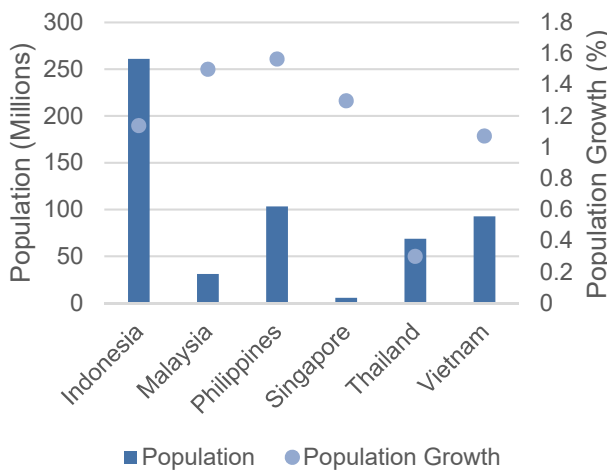


Figure 47: Population and population growth for Philippines vis-à-vis Asia

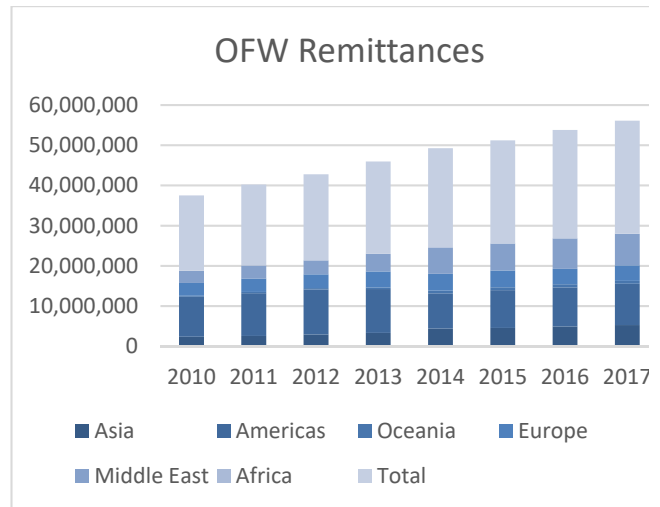


Figure 48: Region-wise remittances from Overseas Foreign Workers

Currency and Interest Rates

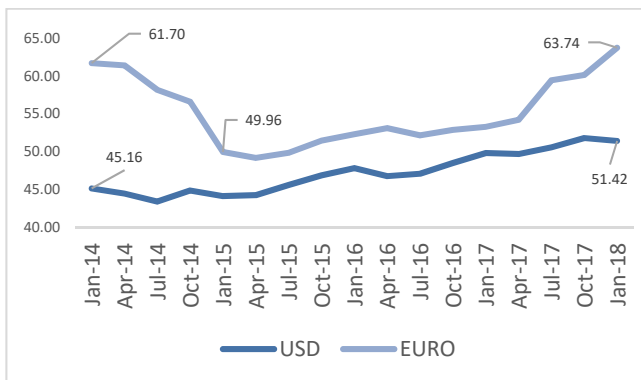


Figure 49: PHP movements against US\$ and Euro

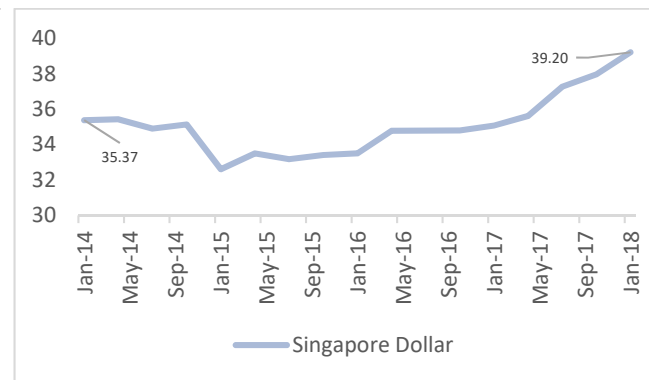


Figure 50: PHP movements against Singapore Dollar

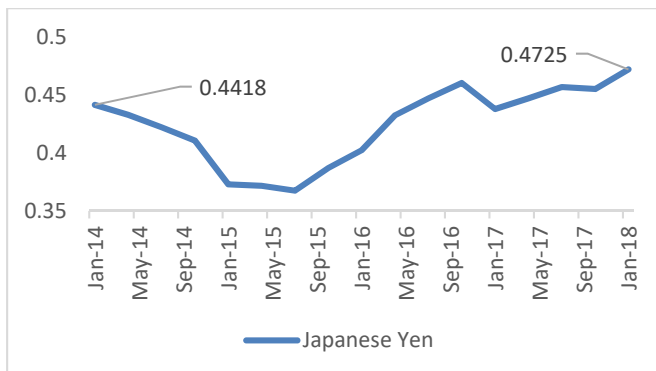


Figure 51: PHP Movements against Japanese Yen

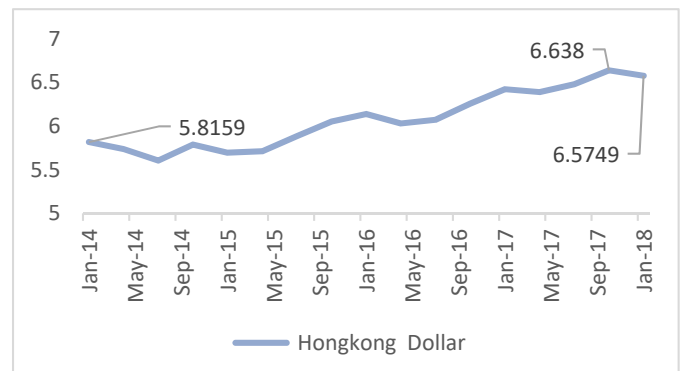


Figure 52: PHP movements against Hongkong Dollar

The local currency is the Philippine Peso (PHP). Monetary supply is issued and regulated by the Bangko Sentral ng Pilipinas (BSP). It is 100% floating. The PHP has seen remarkable stability over the last decade. Currency swaps against other major currencies are also available with most local and international banks.

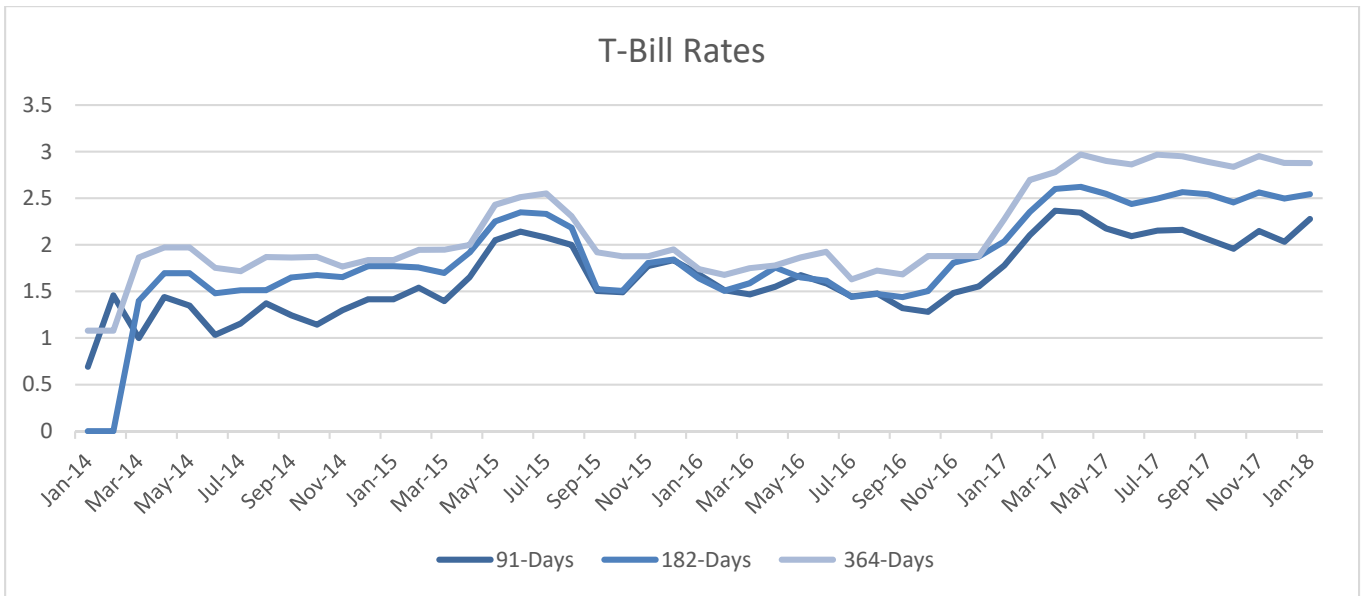


Figure 53: Treasury Bill Rates

Interest rates have been decreasing since the 1990s. This is in spite of fairly stable inflation rates ranging from 1.4% to 4.1% in the last 6 years. The reference rate for domestic loan pricing purposes is the Philippine Dealing System Reference Rates (PDS-R), which is based on the current yields to maturity over government securities across various tenors. The current rates are available at pds.com.ph.

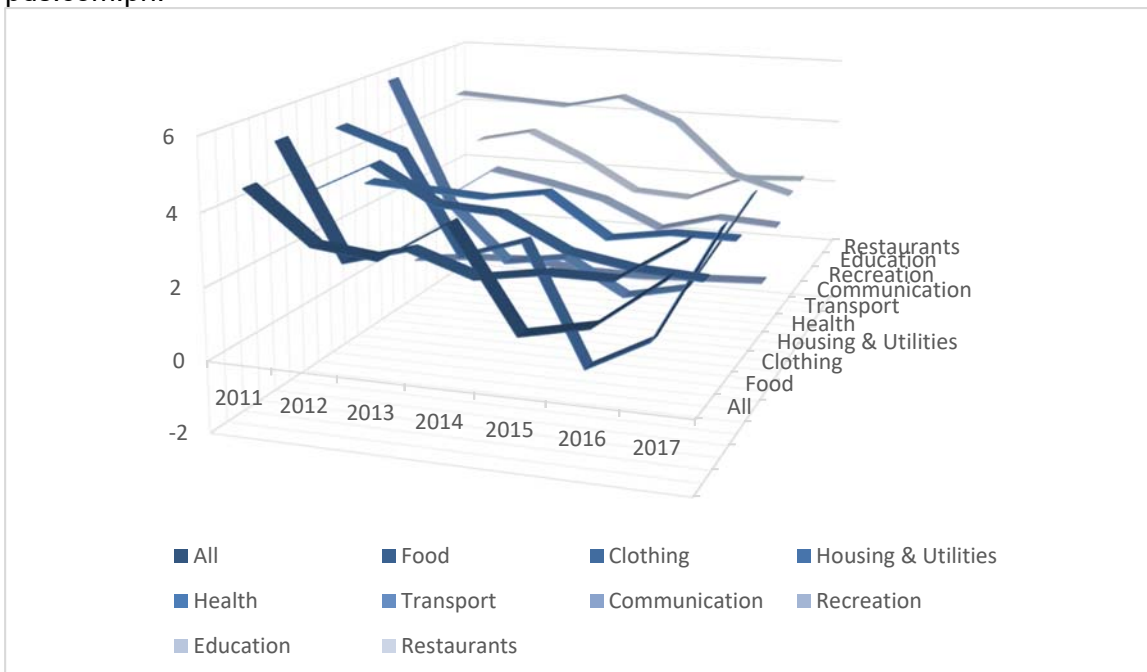


Figure 54: Inflation in Philippines

Fiscal Health

Fitch recently upgraded the Philippines's investment grade rating to BBB (stable) from BBB- (in alignment with Standard & Poor's and Mood's Investor Services) for long-term FCY sovereign

issuances, citing the country's strong and consistent' macroeconomic performance, strong investor confidence, solid domestic demand and inflows of foreign direct investment.

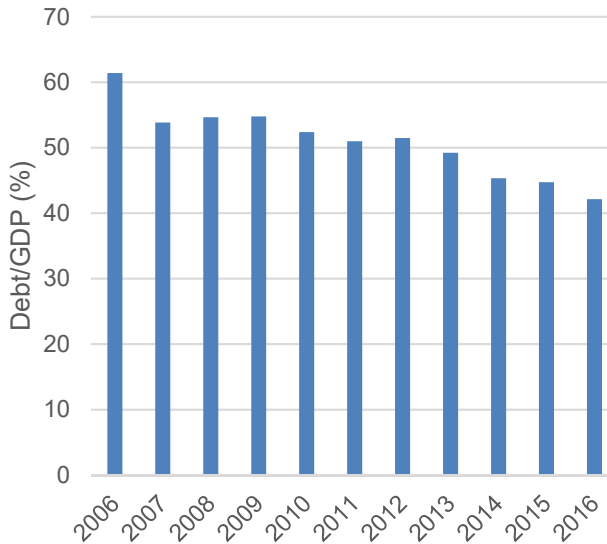


Figure 55: Debt/ GDP ratio

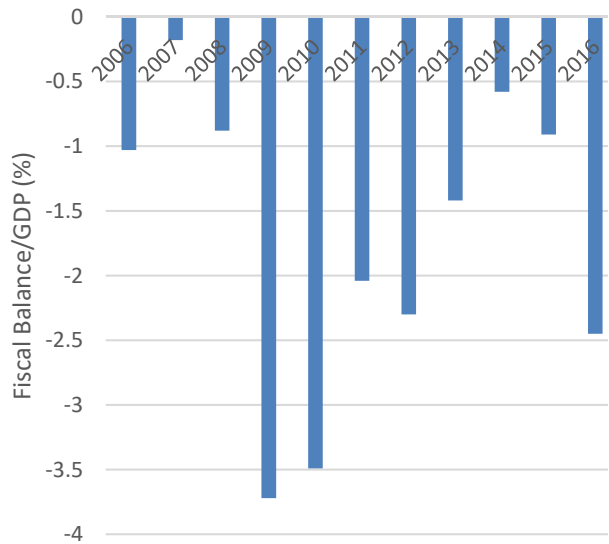


Figure 56: Fiscal Balance / GDP %

Similarly, Standard and Poor's also maintained its BBB (long-term) and A-2 (short-term) sovereign ratings for the country. Credit Default Swaps (CDS) spreads for the Philippines are well below ratings peers.

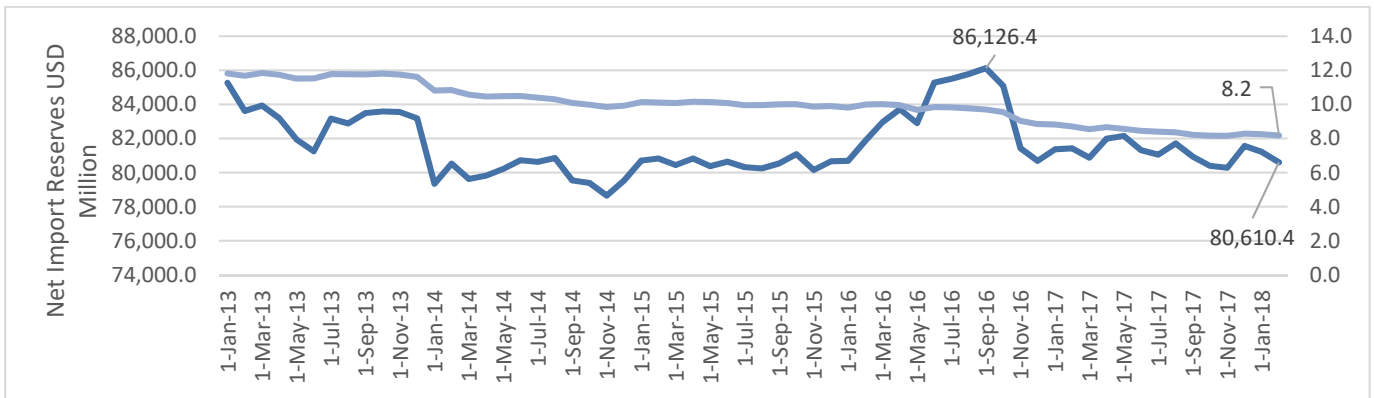


Figure 57: Import cover on foreign reserves (months)

After the Asian Financial Crisis of the late 1990s, the BSP has also maintained a very conservative level of international reserves and has maintained import cover levels of 8-10 months even during periods of extreme currency volatility.

Local Banking Sector

There is plenty of liquidity in the local financial sector, both in local and major foreign currencies, owing to the OFW remittances and strong export industry. Banks typically have significant appetites for

infrastructure projects and have been significant funders of PPP projects in the past. Long-term money is available of up to 10-15 years or even longer.

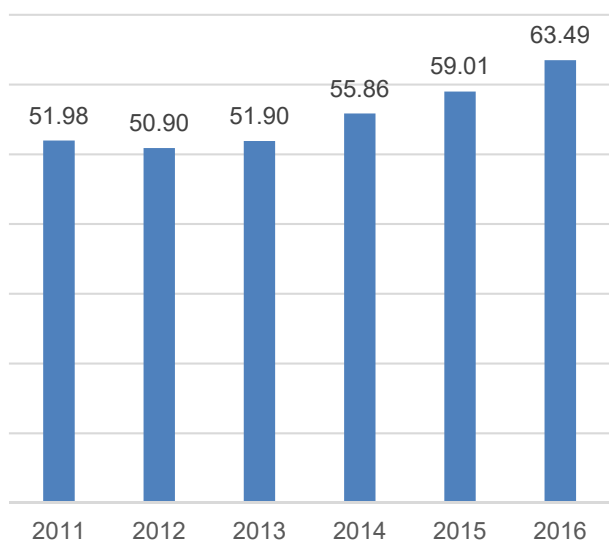


Figure 58: Domestic credit provided by banking sector (% of GDP)

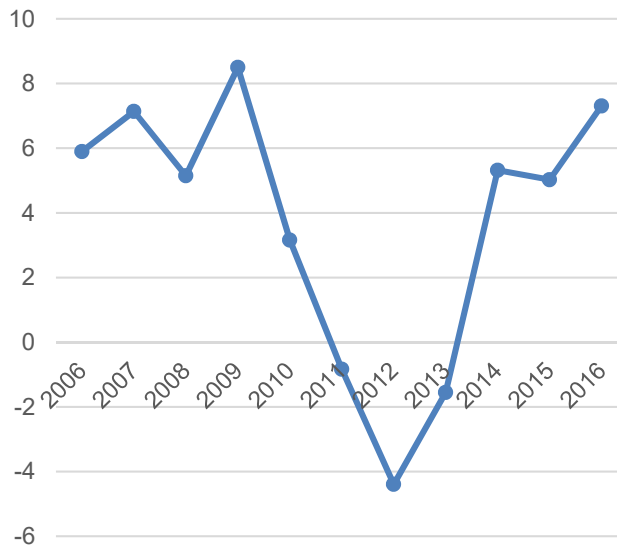


Figure 59: Bank Net Foreign Assets (US\$ Billions)

Philippine banks are generally healthy, well-provisioned, and deposit-driven. Money supply has been increasing carrying bank growth with it. This has been largely tied to growing middle class and the BSP's expansionary policies, which has been set precisely to support much needed infrastructure investment. Single borrower's limits for PPP projects is at 15% of total bank lending.

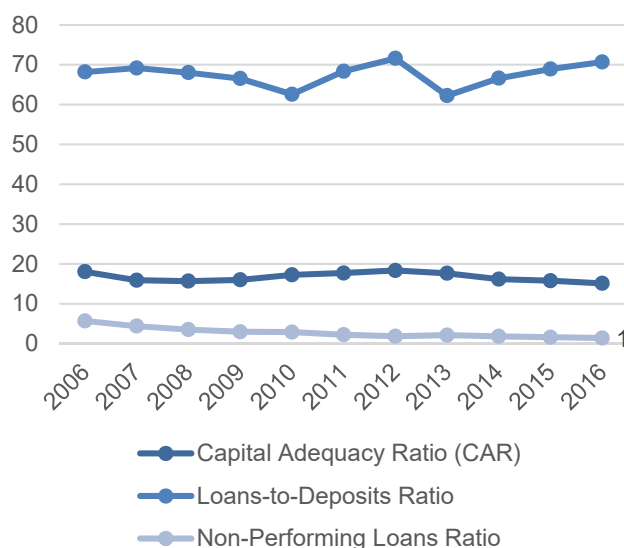


Figure 60: Local Bank Performance (%)

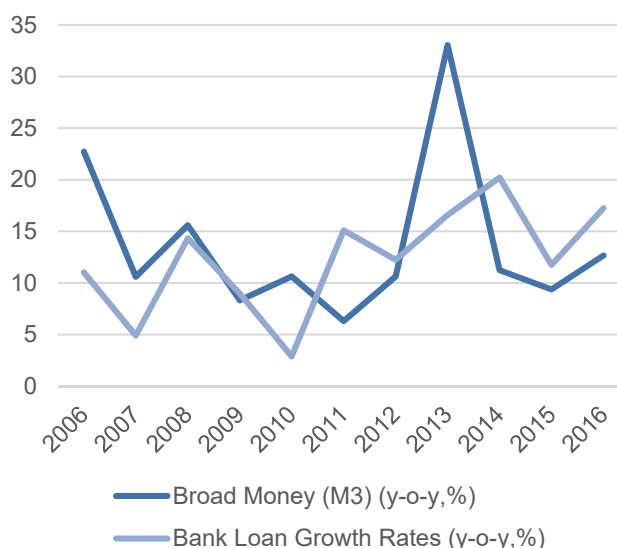


Figure 61: Banking Performance

Capital Markets

With the increase in domestic liquidity, even in household balance sheets, the local capital markets can also serve as significant sources of funding.

The PSE has been growing in capitalization, seeing most major local conglomerates listing their own equities at both the holding and operational levels.

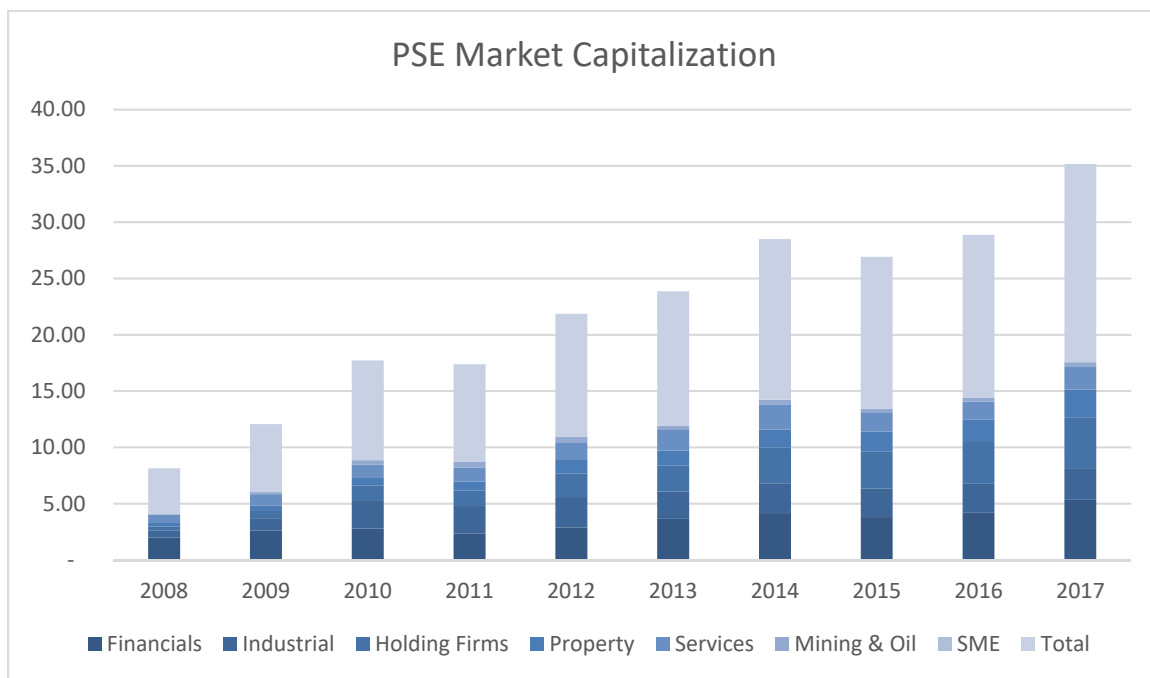


Figure 62: PSE Market Capitalization

The PSE has seen healthy and strengthening liquidity, across all sectors. The SEC has recently liberalized the rules on listing for PPP firms and has issued guidelines for Real Estate Investment Trusts.

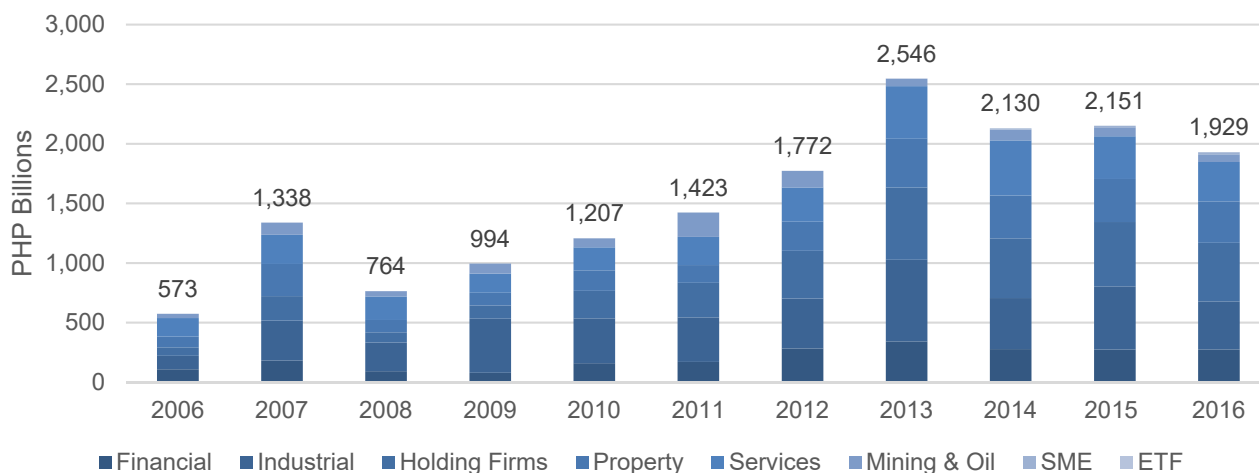


Figure 63: PSE Value Turnover

The local bond market for both government and corporate securities is run by the PDS. The bond market has also seen remarkable growth in size and improvements in liquidity since its inception.

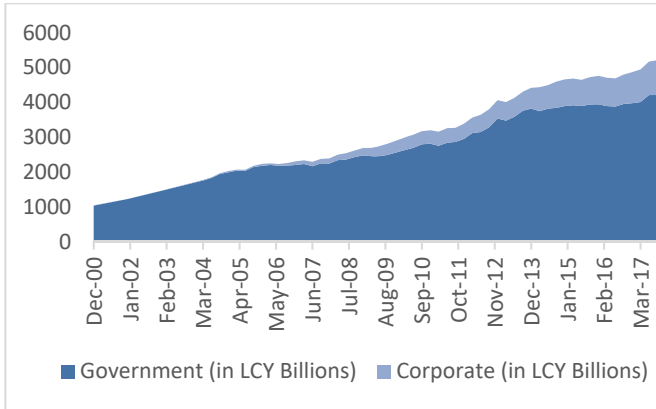


Figure 64: Outstanding Bonds

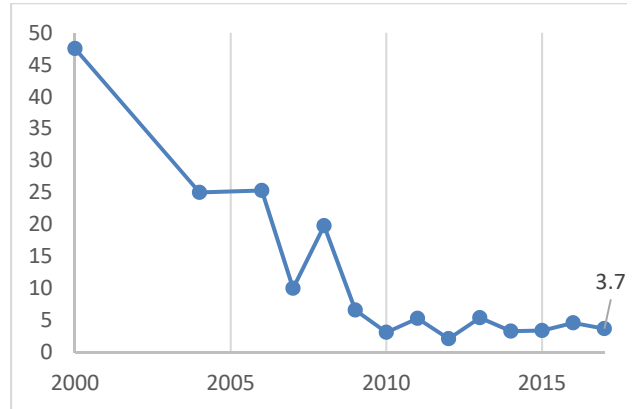


Figure 65: Bond Bid Ask Spread (in bps)

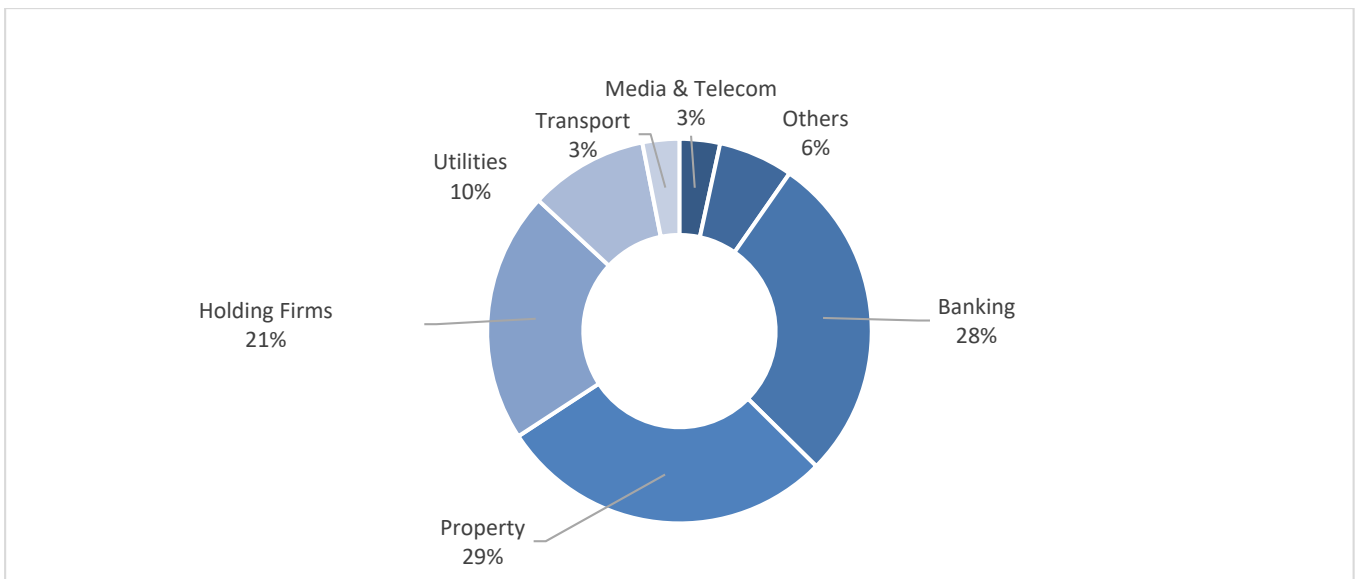


Figure 66: Sector wise break up of outstanding bond issues

The SEC has issued new rules on bond listing allowing for shelf registration and liberalizing the requirements for bond issuances of greenfield infrastructure and PPP special purpose corporations. These have led to more aggressive issuances especially on the part of property firms and holding corporations which are able to take advantage of lower borrowing costs and avoid commitment fees. The bond market is also able to accommodate foreign currency issuances.

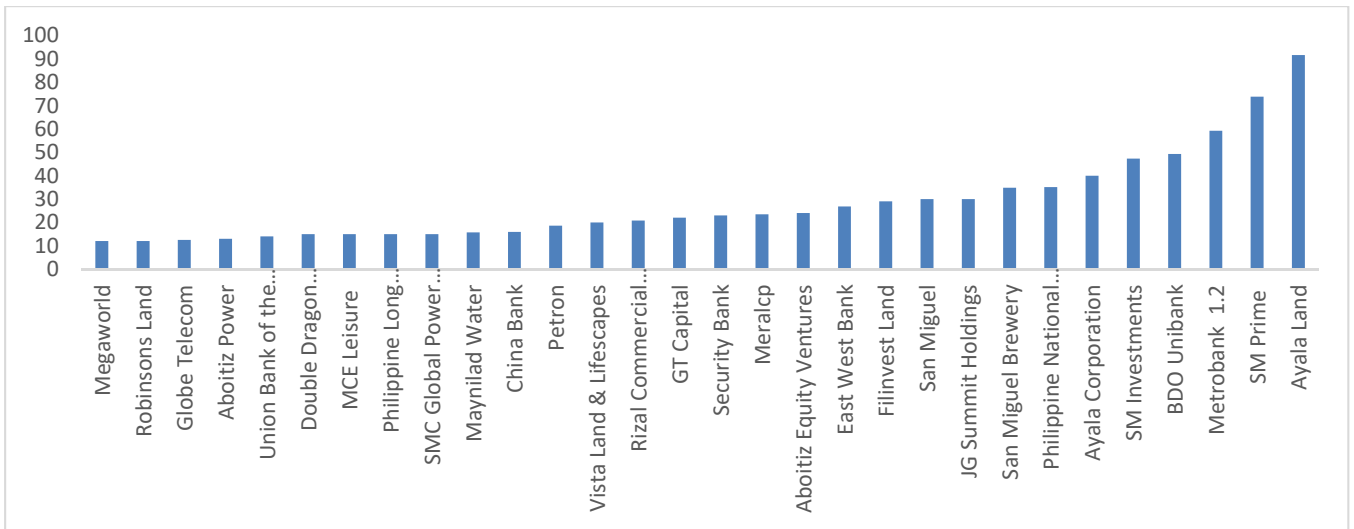


Figure 67: 30 largest outstanding bond issues

BCDA is keen to solicit feedback on the proposed terms and conditions presented in this Information Memorandum, ITB and Bid Documents for the O&M Concession for CIA from prospective Bidders. Interested parties are requested to send their comments, clarifications and other communication to the contact persons mentioned below.

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