

Letter no: GHIAL/2021-22/SPG/1634

Date: July 30, 2021

The Secretary
Airport Economic Regulatory Authority of India
AERA Building
Administrative Complex
Safdarjung Airport
New Delhi -110003

Subject : GHIAL response to consultation paper 11/2021-22

Reference: Consultation paper 11/2021-22 dtd. 2nd July 2021 for determination of aeronautical tariff in respect of RGIA for the 3rd control period (01.04.2021-31.03.2026)

Dear Sir,

We would like to thank the Authority for giving us an opportunity to submit our response on the above consultation paper.

The detailed response along with supporting document is attached herewith as “Exhibit – I”. We request to consider the submission in finalization of tariff order for third control period of Hyderabad Airport.

For GMR Hyderabad International Airport Limited

Authorized Signatory

Enclosure- Exhibit 1



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Ministry of Law and Justice
Department of Legal Affairs

FTS No. 2904/2014/AS

The matter pertains to seeking opinion of Ld. Attorney General for India regarding invoking the powers of the Central Government under Section 42 of the Airports Economic Regulatory Authority of India Act, 2008 (AERA Act) to make a policy in fixing the tariff for Hyderabad Airport pursuant to the directions of the Hon'ble High Court of AP in WP. No. 6487/2014 in the matter of Hyderabad Airport v Union of India.

2. The reference for opinion of Ld. AG is forwarded by the Ministry of Civil Aviation (MOCA) regarding the issue of consideration raised by M/s Hyderabad International Airport (P) Ltd in pursuance of order dated 10.6.2014 of the AP High Court.

3. A background note for seeking opinion of Ld. AG on the issues stated therein is enclosed (F/A). Briefly, HIAL had sent a request to MOCA vide letter dated 20.4.2013 wherein they inter alia requested to MOCA to clarify and issues directions to AERA under Section 42 of AERA Act on the following:

- (i) MOCA's stand on *till* to be adopted for tariff determination of HIAL by the AERA;
- (ii) Keep the land earmarked for Non-Airport Activities outside AERA's purview in consonance with Concession Agreement , Land Lease Agreement and State Support Agreement;
- (iii) Note to assign any value (whether notional or otherwise) to the land earmarked for Non- Airport Activities and not reduce such purported value from the RAB;
- (iv) Not to consider the revenues received by HIAL from the Non-Airport activities including the land earmarked for it, for determination of charges for the aeronautical services at the Airport.

4. The request of HIAL in respect of above stated issues was examined in Consultation Paper (CP) dated 21.5.2013 issued by AERA .These issues were discussed in a meeting held on 31.7.2013 in MOCA with concerned stock holders. Based on the discussions held during the meeting, three broad issues (a) relating to Regulatory Asset Base (RAB) and Depreciation; (b) Fair Rate on Return of Equity (ROE) and (c) in respect of Regulatory Till, the issue relating to treatment of cargo, ground handling and Fuel put charges (CGF) were considered and recommendations as stated at Para 2 of the background note were placed for kind consideration of HMCA.

5. The decision of HMCA is extracted at Para 4 of the background note. In the meantime, AERA issued final order { dated 24.2.2014} in respect of determination of multilayer tariff for HIAL on the 'single till' model.

6. Aggrieved by the order dated 24.02.2014 of AERA, HIAL filed a WP No 6487/2014 before the High Court of A.P. inter alia challenging the orders of AERA on the grounds that final order is not in consonance with the Concession Agreement (CA) signed between GOI and HIAL. The petitioner (HIAL) further stated that the order of AERA prescribing "Single till" mechanism to HIAL, depreciating the land value earmarked for non- airport activities from RAB , issue of ROE etc are against the terms and conditions of the CA. The petitioner also sought directions for the Central Government I to issue policy directions as dereliction of duties in terms of Section 42 of the AERA Act.

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7. The issues raised in the WP were considered by the MOCA which filed a reply in the matter. The High Court disposed of the matter with directions of UOI (MOCA) which read as under:

57. *Section 42(2) is a residuary provision, which rests power in the Central Government to prescribe policy concerning any issue covered by the Act, 2008 and once policy is formulated by the Central Government the same shall be binding on the AERA, even though Section 13 vests exclusive privilege in the Authority to prescribe tariff. Thus, AERA can exercise power under Section 13 to prescribe tariff independently until and unless policy is formulated by the Government. In view of the expression contained in Section 42(2) and when the legislative intent is very clear, it is not open to contend on behalf of the Central Government that the Central Government cannot prescribe nature of tariff applicable to an airport; that interference by the Central Government is not called for; that Section 42(2) does not extend to determine the tariff.*

58. *Having regard to the fact that representation submitted by the petitioner was entertained and processed, it is but imperative that the competent author should take a decision and communicate the decision to the petitioner after duly considering all aspects before the Central Government by the petitioner. To that extent, the grievance of the petitioner is valid. In the facts of this case, it is imperative to direct the Central Government to pass appropriate orders as warranted by law on the representation submitted by the petitioner dated 20.04.2013 with reference to the notification of policy on appropriate tariff applicable to the petitioner airport, as expeditiously as possible, at any rate within eight(8) weeks from the date of receipt of copy of this order.*

8. As per the directions of the High Court, HIAL also filed an appeal (in terms of Section 18(2) of the AERA Act) against the orders of AERA in the Appellate Tribunal (AERAAT), however it is informed that the Bench of Appellate Tribunal is not presently functional.

9. It is pertinent to refer to relevant provisions of CA as entered into between HIAL and GOI regarding airport charges placed under the heading "Airport Charges" which stand reproduced at Para 7 of the Note. The provisions relating to treatment of land leased out to HIAL under Lease Deed and CA under the captioned heading "Land Lease Agreement" stand extracted at Para 8 of the Background Note.

10. The Chapter III of AERA Act provides the powers and functions of the Authority. Section 13 (1)(a) of the Act provides that the Authority shall determine the tariff for the aeronautical services taking into consideration specified at sub clauses (i) to (vii) which include the concession offered by the central government in any agreement or memorandum of understating or otherwise.

11. It is further stated that the Article 10.2.1 of the Agreement provides that the airport charges specified in Schedule 6 of CA shall be consistent with ICAO policies. The relevant provisions of ICAO policies stand extracted at Para 10 of the Note.

12. Further, Section 42 of the AERA Act provides for Directions by the Central Government. The Section read as under:

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"42. Directions by the Central Government-(1) The Central Government may, from time to time , issue to the Authority as it may think necessary in the interest of the sovereignty and integrity of India, the security of the State, friendly relations with foreign States , public order , decency and morality.

(2) Without prejudice to the foregoing provisions, the Authority shall , in exercise of its powers or the performance of its functions , be bound by such directions on questions of policy as the Central Government may give in writing to it from time to time ;

Provided that the Authority shall, as far as practicable, be given an opportunity to express its views before any direction is given under this subsection.

(3) The decision of the Central Government whether a question is one of policy or not shall be final".

13. The referring Ministry (MOCA) has stated that they have not yet formulated any Policy with regard to economic regulation for airport sector. This is being done by AERA for major airports as per Section 13(1) of the AERA Act and the guidelines issued by the AERA in the year 2011. Further, Section 13(1(a) (vi) of the Act, AERA is to determine the tariff for the aeronautical services taking into account the consideration of the concession offered by the Central Government in any agreement, MOU or otherwise.

14. The MOCA has also stated that they have not framed any policy for economic regulation for airport sector; however they are in process of finalization of such regulation /policy.

15. Further details about determination of airport charges to be consistent with ICAO policy, classification of airport activities and discussions held with State Governments are explained at Para 14 and 15 of the background note.

16. The High Court while referring to Section 13 and 42 of the Act, provisions of CA, provisions of State Supported Agreements and relevant circumstances (i)discriminatory treatment as various other airports being subjected to " Hybrid till" -where 40 % revenue from non-aeronautical sector was to be adjusted and that of applicant being subject to " single till mechanism", (b) issuance of decision of AERA without awaiting decision of Central Government (which being seized of the matter) directed UOI that " it is but imperative that the competent authority should take a decision and communicate the decision to the petitioner after duly considering all aspects placed before the Central Government by the petitioner".

17. On perusal of provisions of CA, it is noted that certain critical issues like till, cost of equity, treatment of cargo, ground handling and fuel, treatment of land etc have vital impact repercussions on long term viability of the airport sector. Clarity and uniformity on these issues appear to be important for ensuring success of privatization and harmonious growth of airport sector. Hence, there is a need for policy on these matters for guidance of a Regulator and the Central Government is required to make a Policy on appropriate tariff applicable to Hyderabad Airport.

18. On perusal of affidavits filed by MOCA before the Appellate Tribunal, it is noted that various AAI operated Airports like Jaipur, Amritsar Vizag and Ahmedabad and others were subjected to a "Hybrid Till Mechanism" where 30% non-aeronautical revenue was considered towards cross subsidizing the aeronautical service charges. It is also noted that in respect of cities such as

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Bangluru and Hyderabad facilities were to be developed from scratch (green field airports) , the central Government entered into Concessions Agreements and the respective State Support Agreements separately with concerned airport developers.

19. Clause 10.2 and 10.3 read with Schedule 3 of CA does not directly deal with the issues of applicable till mechanism. However, understandings of the parties in the form of Agreements as entered to have to be taken into consideration before taking a decision on the issue. It appears from 10.2 of CA that charges mentioned in Sch. 6 alone are agreed to be determined by the regulator and 10.3 gives freedom to Concessionaire to levy other charges , On joint reading of these provisions , it is understood that other charges cannot be determined or regulated by the Regulator . Further, sch. 6 also provides that the tariffs should be consistent with ICAO policies in vogue which explicitly provide for advocating hybrid/shared till mechanism.

20. The CA as such does not deal with aspects relating to the cross subsidization. However, the understanding of the parties to the project – State Government, MOCA has to be taken into consideration while taking a decision on vital issues having repercussions on the airport sector.

21. A reading of the provisions of CA with Land lease Agreements , indicate that the land leased out by the State Government concerned is to be utilized both for airport and non-airport purposes . The AERA Act has mandated the Regulator (AERA) to determine the tariff for aeronautical services in respect of major airports by taking into consideration the revenues received from services other than aeronautical services and the Concessions granted by the Central Government.

22. In terms of Section 13(1) of 2008 Act, the AERA shall perform functions of determining the tariff for aeronautical services taking into considerations various factors /concerns as stated at sub clauses (i) to (vii). Section 42(1) provides for issuance of directions by the central government in the interest of sovereignty and relations. However, Section 42(2) provides that " without prejudice to the foregoing provisions" , the authority shall in exercise of its powers { defined in Section 13) be bound by such directions on the questions of policy as the Central Government may give in writing from time to time. It is also provided that Authority shall have right to place its views before issuance of any such directions by the Central Government.

23. The Supreme Court in Air India v Cochin Aiports Ltd , 2000 (2) SCC 617 held that " State, is corporations, instrumentalities and agencies are bound to adhere to the norms, standards and procedures laid down by them and cannot depart from them arbitrarily. The State, its corporations, instrumentalities and agencies has the public duty to be fair to all concerned". In Harayana Financial Services v Jagdamba Oil Mills, 2002 (3) SCC 496, the Court held that "The obligation to act fairly on the part of the administrative authorities was evolved to ensure the rule of law and to prevent failure of justice. This doctrine is complementary to the principles of natural justice which the quasi-judicial authorities are bound to observe".

24. It is well settled principle of construction of statute that same must be interpreted in accordance with intention of the legislature. The Supreme Court in Trutfut Safey Glass v CIT, 2007 (7) SCC 242 held that "A statute is an edict of the Legislature. The language employed in a statute is the determinative factor of legislative intent. In Dr. R. Venkatchalam case 1977 (2) SCR 392, it was held that " Courts must avoid the danger of a priori determination of the meaning of a provision based on their own pre-conceived notions of ideological structure or

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scheme into which the provision to be interpreted is somewhat fitted. They are not entitled to usurp legislative function under the disguise of interpretation. It is trite that the terms of the contract can be express or implied. The conduct of the parties would also be a relevant factor in the matter of construction of a contract (Mcdermott International Inc. v Burn Standard Co) 2006(11) SCC 181, 225).

25. Section 42 of the 2008 Act (which is pursuant to CA entered to in this matter) is a legislative measure which provides for the Central Government to make a policy consistent with the provisions of the Agreements entered into by it. The Section does not in any way preclude the Central Government to lay down policy which could vary on case to case basis. No doubt, specific function for determination of tariff on certain considerations as enumerated in sub clauses has been assigned to the Regulator, however Section also casts a duty on the Central Government to take a policy decision or issue necessary directions in conformity with provisions of the Agreements to the Regulator which shall be bound by such policy decisions. The clause "power to Central Government to issue directions" is also available in TRAI Act and PNGRB Act, 2006 and the Central Government is not denuded of its powers and duties in respect of issuing any policy directions even in respect of certain functions which are performed by the Regulatory agencies. The directions of the Central Government are in terms of statutory mandate and cannot be said to interference in day to day functioning of Regulator.

26. In the light of above factual and legal position, it can be summarised as following:

of interest / right,

- (i) In terms of Legislative mandate given in Section 42 of the AERA Act, which is subsequent to Concession Agreement (2004), the Central Government does not seem to be precluded from making a policy which would be consistent with provisions of Agreements entered into by the Government;
- (ii) Though policy decisions are prospective in nature, however when these are given retrospective operation, the same must be expressed explicitly and retrospectivity may be conferred provided no vested or accrued ~~cannot~~ are affected by such operation.
- (iii) In terms of Section 42 of the Act, there appear to be no bar as such for framing of a policy on case to case basis subject to peculiarity of case and respective Agreement entered into by the Government. However, the exercise must be in conformity with Constitutional principles and rational considerations.
- (iv) The Central Government would have to take an appropriate considered decision with regard to applicable till for aeronautical services as provided in Schedule 6 of the CA as per contractual terms and conditions as agreed upon by it. It can also take a decision about non-aeronautical revenues to be considered to cross subsidize the charges for aeronautical services.
- (v) In terms of provisions of AERA Act, the AERA appears to have mandate for fixation of tariff with regard to aeronautical services, however the Authority does not appear to have mandate to include the non-airport activities while fixing the tariff and for this purpose, the Central Government is to take policy decision in terms of contractual terms agreed upon and issue necessary directions to the same effect.

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27. It is most pertinent to mention that the issue relating to exercising the powers of the Central government under Section 42 of the AERA Act was examined by the then Attorney General who vide opinion dated 7.12.2010 opined that "there is a genuine concern on the part of the Ministry of the need to give directions on matters of policy". A note from this department and opinion of the then Ld. AG is placed at F/Z.

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28. In view of the above, since the issues involve interpretation of various statutory and contractual provisions of immense importance, MOCA with the approval of Hon'ble Minister for Civil Aviation has desired to obtain the opinion of Ld. AG on the following issues:

- (i) Whether it is mandatory for GOI to make a Policy as per observations in the judgment?
- (ii) In the event of Government making a Policy, would it be legally tenable to apply such a Policy where a legally enforceable agreement has been signed and is in force? Can such a policy have retrospective effect?
- (iii) Section 42(2) of the Act provides for issuance of 'Policy' direction to AERA by Central Government under Section 42(2) of Act to AERA on a case to case basis?
- (iv) Which is the applicable till as per Clause 10.2 and 10.3 read with schedule 6 of Concession Agreement for determination of tariff for the Regulated Charges?
- (v) Whether the Concession Agreement permits to use the revenues from non-aeronautical activities or services including the revenues from activities of cargo, ground handling or fuelling services and/or non-airport activities, to cross subsidise the charges for aeronautical services?
- (vi) Whether return on equity between 18.5% to 20.5% as suggested by SBI Capital Markets, can be applied for airport sector as a part of tariff policy?
- (vii) Whether land earmarked for non-airport activities should be kept outside the purview of AERA?

May kindly see.

(TK Malik)
Asst. Legal Adviser
28.10.2014

Shri T. N Tiwari (Addl. Secy.)

Law Secretary

[Signature]
01.11.2014

[Signature]
31-10-2014
T. N. TIWARI
Additional Secretary

[Signature]
MLJ

Law Secretary

[Signature]
AS (LAW)
DLA (TKM)

[Signature]
T. N. TIWARI
Additional Secretary

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OFFICE OF ATTORNEY-GENERAL FOR INDIAOPINION

Sub: Powers of the Central Government under the Airports Economic Regulatory Authority of India Act, 2008 (AERA Act) to make a policy in fixing the tariff for the Hyderabad Airport pursuant to the directions of the Andhra Pradesh High Court in WP 6487/2014 in the case of "Hyderabad International Airport Ltd. (HIAL) Vs. Union of India & Ors.

I have seen the notings in the file sent by M/o L&J and the issues mentioned by Shri T.K. Malik, ALA in his note dt. 28/10/2014. I have also seen the note of Shri Sunil Pant, Under Secretary dated 22/9/2014, the provisions of the AERA Act, 2008 as also the order of the A.P. High Court dt. 10/6/2014 in WP filed by HIAL. I have also held discussions with officers of MOCA.

2. Significantly, the Concession Agreement (CA) was signed much before the AERA Act, 2008 came into operation. HIAL is a Greenfield Airport which was constructed about 6 to 7 years ago. The old Airport is called "Begumpet Airport".

3. Bangalore Airport is a Greenfield Airport. Bangalore as also Hyderabad Airports are situated about 25-30 kms away from the main city.

Delhi and Mumbai are called Brownfield Airports and they are much older.

4. Clause 10.2 of CA deals with "Airport Charges". Clause 10.2.1 states that "the charges specified in Schedule 6 shall be consistent with "ICAO Policies".

5. As is commonly known, there are two streams of revenues within the airport. One is called "Aeronautical Revenue" and the other is "Non-Aeronautical Revenue". Aeronautical Revenue, in common parlance means charges payable for landing, parking of aircrafts, use of push ladders and other equipments which toes the aeroplanes etc. etc. Non-Aeronautical Revenue includes revenue from a restaurant, a book shop and/or other shops/ stores etc. within the terminal of the airport. Some of these terms are defined in the AERA Act. I shall refer to them at the relevant stage. Schedule 6, Part 1 deals with "Airport Activities".

6. Significantly, in the CA there is no demarcation about "Aeronautical" and "Non-Aeronautical". The demarcation is broader i.e. "Airport" and "Non-Airport" revenues.

7. The Concessionaire is entitled to recover certain charges from his customers i.e. passengers who use the airport. The charges are regulated under the CA.

8. As stated earlier, Airport Charges under the CA have to be consistent with ICAO policies. ICAO stands for "International Civil Aviation Organization".

9. ICAO has issued Document No. 9562 (3rd ed.) 2013 called "Airport Economics Manual". The same in Clause 4.123 provides that the basis for charges should be transparent amongst other things and "which costs are included and to what extent Non-Aeronautical Revenues are being used to offset Aeronautical Costs.

10. The purport of Clause 4.123 is that Non-Aeronautical Revenues, to the extent to which the Government decides, can be used to offset Aeronautical Costs. The idea seems to be that the charges recoverable from the passengers should be reduced by this offsetting. This would mean that some part of Non-Aeronautical Charges can offset Aeronautical Costs. The actual amount or percentage in that regard has to be decided by the Government. The Clause suggests that a balance will be struck so as to give advantage to the passengers of reduced charges and at the same time allow the airport operator to reap some benefit for itself from Non-Aeronautical Revenues since the airport operator has expended huge sums in building a new airport.

11. I find that Concession Agreements were also executed in regard to Delhi and Mumbai Airports, much subsequent to the CA in question.

12. The experience of private airports led to streamlining of these Concession Agreements and in the case of Delhi & Mumbai Airports. Concession Agreement provides for Aeronautical vis-a-vis Non-Aeronautical rather than Airport and Non-Airport as in the CA in question.

13. I am also informed that 30% of Non-Aeronautical Revenue is used for offsetting the Aeronautical Charges in Delhi and Mumbai. This means that while benefit is given to passengers on the one hand by this offsetting, the airport operator also retains some benefit from Non-Aeronautical Services. It may be mentioned that Delhi and Mumbai are operating airports wherein the Concessionaire has stepped in, while HIAL has built a new Airport from scratch.

14. The AERA Act, 2008 seeks to provide for establishment of an Authority called "the Airports Economic Regulatory Authority" to regulate tariff and other charges for the aeronautical services rendered at airports and to monitor performance standards of airports and also to establish an Appellate Tribunal to adjudicate disputes and dispose of appeals and for matters connected therewith or incidental thereto. The Aeronautical Services are defined in Section 2(a). They are essentially services required for smooth landing, parking and take-off of aeroplanes including housing of planes, cargo facility, supplying fuel to the planes etc.

15. Non-Aeronautical Services are not defined. This would include, in common parlance, services like restaurants, book shops etc. for the use and enjoyment of customers/ passengers which also earns sizable revenue. It may be noted that the Act does not talk of Airport and Non-Airport Revenues.

16. A reference may be made to Section 13. Section 13 defines "Functions of Authority". The primary function u/s 13(i)(a) is "Determination of tariff for Aeronautical Services". Several considerations relevant for determination of tariff are set-out in sub-clauses (i) to (vii). Consideration (v) is relevant and the same reads as "revenue received from services other than the aeronautical services".

17. It appears from the record that the Authority, in the case of HIAL has directed that the entire revenue from Non-Aeronautical Services and even from Non-Airport Services like hotels, shops outside the Airport will in its entirety offset Aeronautical Costs.

18. HIAL has made several representations stating that firstly Non-Aeronautical Revenues cannot be used for offsetting Aeronautical Services. Secondly, it is stated by them that only a percentage of Non-Aeronautical Revenues should be used for offsetting Aeronautical Costs and not in its entirety. They rely upon Clause 10.2 of CA which states that determination of the tariff should be consistent with the ICAO Policies. ICAO Policies, they emphasise, states that the Government shall decide as to what extent of Non-Aeronautical Revenues should offset the Aeronautical Costs. They also rely upon the fact that the established airports like Delhi and Mumbai where only 30% Non-Aeronautical Revenues is used for offsetting Aeronautical Costs. Therefore, the entire revenue from Non-Airport and Non-Aeronautical Services should not in its entirety offset Aeronautical Costs.

19. The High Court in its order dated 10/6/2014 has directed in paras 57 & 58 as follows:

"57. Section 42(2) is a residuary provision, which rests power in the Central Government to prescribe policy concerning any issue covered by the Act, 2008 and once policy is formulated by the Central Government the same shall be binding on the AERA, even though Section 13 vests exclusive privilege in the Authority to prescribe tariff. Thus, AERA can exercise power under Section 13 to prescribe tariff respectively until and unless policy is formulated by the Government. In view of the expression contained in Section 42(2) and when the legislative intent is very clear, it is not open to contend on behalf of the Central Government that the Central Government cannot prescribe nature of tariff applicable to an airport; that interference by the Central Government is not called for; that Section 42(2) does not extend to determine the tariff.

58. Having regard to the fact that representation submitted by the petitioner was entertained and processed, it is but imperative that the competent authority should take a decision and communicate the decision to the petitioner after duly

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considering all aspects before the Central Government by the petitioner. To that extent, the grievance of the petition is valid. In the facts of this case, it is imperative to direct the Central Government to pass appropriate orders as warranted by law on the representation submitted by the petitioner dated 20.04.2013 with reference to the notification of policy on appropriate tariff applicable to the petitioner airport, as expeditiously as possible, at any rate with eight (8) weeks from the date of receipt of copy of this order".

20. The purport of the High Court judgment is that the Government must pass appropriate orders on the representations of the Petitioner dated 20/4/2013 and also that the Government should notify a policy u/s 42 of the Act for laying down the contours and guidelines on the basis of which tariff should be determined and particularly in the case of HIAL. The High Court directed that the needful be done within 8 weeks.

21. It is a fact that the order of the High Court has not been complied with by Ministry till date. As per the directions of the High Court, an appeal u/s 18 has also been filed by HIAL before the Appellate Tribunal of AERA.

22. A reference to Section 42 shows that the Central Government can issue directions to the Authority. Under sub-clause (1) the directions will be issued as may be necessary in the interest of the sovereignty and integrity of India, the security of the State, friendly relations with foreign States, public order, decency or morality.

23. Section 42(2) provides as follows:

"Without prejudice to the foregoing provisions, the Authority shall, in exercise of its powers or the performance of its functions, be bound by such directions on questions of policy as the Central Government may give in writing to it from time to time".

"Provided that the Authority shall, as far as practicable, be given an opportunity to express its views before any direction is given under this sub-section".

24. One question which arises is as to whether the policy can only be in relation to issues of "sovereignty and integrity, security of State....." as stated in Section 42(1) or whether the Central Government can issue directions or frame a policy on issues other than those mentioned in Section 42(1) of the Act. Needless to add, the Authority shall be bound by the direction on questions of policy, while discharging its functions.

25. In my view, Section 42(2) empowers the Central Government to issue directions on matters of such policy as the Central Government may desire to frame. The hands of the Central Government will not be tied to matters referred to in Section 42(1) of the Act only. For efficient and smooth working of the Act, policy can be made.

26. I am also informed that no policy has been framed so far relating to issues of tariff fixation i.e. in technical language "Till Mechanism". Offsetting a portion of Aeronautical Costs is called "Hybrid/ Shared Till Mechanism". I am informed that a policy is under preparation, but it is yet to be finalized.

27. Be that as it may, under the direction of the High Court, the Government is bound to either bring out a policy for tariff fixation as a whole, on an industry-wide basis or atleast in the case of HIAL. In any case, Government must decide the representation dated 20/4/2013 of HIAL.

28. I also find from the papers in the file that an objection was raised by the Govt. of India that since the matter has gone in appeal to the Appellate Tribunal, the Writ Petition ought not to be entertained. The said point stands overruled in view of the operative directions of the High Court dated 10/6/2014.

29. I also find that in the note of Shri Sunil Pant, Under Secretary, the request/representation of HIAL dated 20/4/2013 is set out wherein they have requested the Ministry to clarify and give a direction to AERA u/s 42 of the Act on four issues. The same are set-out hereinbelow:

- (i) MoCA's stand on till to be adopted for tariff determination of HIAL by the AERA;
- (ii) Keep the land earmarked for Non-Airport Activities outside AERA's purview in consonance with Concession Agreement, Land Lease Agreement and State Support Agreement.

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- (iii) Not to assign any value (whether notional or otherwise) to the land earmarked for Non-Airport Activities and not reduce such purported value from the RAB.
- (iv) Not to consider the revenues received by HIAL from the Non-Airport Activities including the land earmarked for it, for determination of charges for the aeronautical services at the Airport.

30. The note of Shri Sunil Pant goes on to state that in regard to the nature of "Till" to be adopted, the Ministry proposed to recommend to AERA in so far as HIAL was concerned that a "Hybrid/ Shared Till Model" should be adopted and 50% of the Non-Aeronautical and Non-Airport Services be used to offset Aeronautical Charges. However, the proposal of the Ministry was not finally conveyed to AERA due to recommendation of the then Minister of Civil Aviation.

31. It is at this juncture that the position rests today. In my view, the MOCA has to comply with the judgment of the High Court dated 10/6/2014 and decide the representation in regard to the nature of offsetting of Non-Aeronautical/ Non-Airport Revenue against Aeronautical Costs. The Ministry must also decide whether Non-Airport Revenue can at all be considered.

32. The Ministry will keep all relevant factors in view including the nature of arrangement of Delhi, Mumbai and Bangalore Airports and take a final call. Significantly, the CA is of 2004. At that time, there was no AERA Act. The CA provides for the charges to be determined in accordance with the ICAO policies and ICAO policy leaves the matter to the Central Government to decide the extent to which one revenue stream can offset the costs of the other. Some airports may have come up after the promulgation of the AERA Act, 2008. They would straight away be governed by the provisions of the Act. In the instant case, the CA is of 2004 which is much before the Act came into operation. The Ministry should take a holistic view of the matter, keeping in view the provisions of CA and the prevailing scenario at different airports. The Act does not say that the CA shall be ignored. On the other hand, Section 13(1)(a)(vi) directs that the provisions of the CA will be kept in view while determining tariff.

33. Needless to add, to avoid future litigation in this behalf and in view of the fact that rapid development of the economy will lead to establishment of new airports all over the country, it is imperative that a industry-wide policy should be formulated by the Ministry and brought into public domain at the earliest including for HIAL.

34. Answer to specific queries raised in para 28 of the note of Shri T.K. Malik, ALA dt. 28.10.2014:

Q.(i) Whether it is mandatory for GoI to make a Policy as per observations in the judgment?

Ans. It is imperative for the Ministry to make a policy in relation to cross-subsidy from Non-Aeronautical Revenue to offset Aeronautical Charges. In any case, representation of HIAL has to be disposed of by GoI in terms of the judgment of the A.P. High Court. The disposal of the representation will necessarily mean that the GoI must decide as to whether the cross-subsidies should be in full or in part, as is in the case of Delhi and Mumbai Airports. This would amount to a policy for HIAL, atleast.

Q.(ii) In the event of Government making a Policy, would it be legally tenable to apply such a Policy where a legally enforceable agreement has been signed and is in force? Can such a policy have retrospective effect?

Ans. The CA between HIAL and the Government is still in force. The CA provided that the GoI can decide on the quantum of cross-subsidy and should generally follow ICAO policies. The Government did not decide. AERA has decided on 100% cross-subsidies. If the GoI decides the representation and the quantum of cross-subsidy, the same can be applied in the case of HIAL.

Q.(iii) Section 42(2) of the Act provides for issuance of 'Policy' direction to AERA by Central Government u/s 42(2) of the Act to AERA on a case to case basis?

Ans. Policy directions are usually for the industry, but it can be for a specific case also. In any event, as per the directive of the A.P. High Court a policy has to be made atleast for HIAL which will result in disposal of its representation.

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Q.(iv) Which is the applicable "Till" as per Clause 10.2 and 10.3 readwith Schedule 6 of CA for determination of tariff for the Regulated Charges?

Ans. I have already answered in the body of the opinion that if the view taken is 'cross subsidy in part, the same will be called a "Hybrid/ Shared Till". If the cross-subsidization is effected in full, as directed by AERA, the same will be called "Single Till".

The Central Government through MOCA has to take this call based on varied of factors including prevalent practice in other airports, as already stated hereinabove.

Q.(v) Whether the CA permits to use the revenues from Non-Aeronautical Activities or Services including the revenues from activities of cargo, ground handling or fuelling services and/ or Non-Airport Activities, to cross subsidise the charges for aeronautical services?

Ans. The CA has two relevant clauses in this behalf. 10.2 deals with "Airport Charges". 10.2.1 deals with those specified in Schedule-6 which are also termed as "Regulated Charges". Cargo and ground handling services are not to be found in Schedule-6. They are, therefore, not Regulated Charges. Clause 10.3 deals with "Other Charges". HIAL has a right to determine charges for those facilities which are not covered in "Regulated Charges". Hence, HIAL can charge whatever it desired without any regulation in that behalf. However, under the CA, they will be deemed to be non-regulated services. But it will be necessary to include them under Non-Aeronautical Services. The position under the AERA Act is, however, to the contrary.


Q.(vi) Whether return on equity between 18.5% to 20.5% as suggested by SBI Capital Markets, can be applied for airport sector as a part of tariff policy?

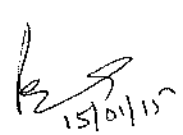
Ans. I am not in a position to answer.

Q.(vii) Whether land earmarked for non-airport activities should be kept outside the purview of AERA?

Ans. Logically, non-airport activities should be outside the purview of AERA since AERA is related to only regulation of airports and what is outside the precincts should not be in the jurisdiction of AERA. The preamble of the Act and its provisions show that only airports are within the sweep of the Act.

I have nothing further to add.


(Mukul Rohatgi)
Attorney-General for India
14/01/2015

Law Secretary 
15/01/15

A S (T/T)
15-01-15
T. M. TIWARI
Additional Secretary

DLA (TRM)

FTS No.2904/2015/B

The matter pertains to approval of an opinion of Ld Attorney General for India (F/A) sought in the matter of invoking the powers of the Central Government under Section 42 of the Airports Economic Regulatory Authority of India Act, 2008 (AERA Act) to make a policy in fixing the tariff for Hyderabad Airport pursuant to the directions of the Hon'ble High Court of AP in WP. No. 6487/2014 in the matter of Hyderabad Airport v Union of India.

2. The reference for opinion of Ld. AG was forwarded by the Ministry of Civil Aviation seeking his opinion on certain issues as originated with respect to provisions of Concession Agreement entered into between Government of India and M/s Hyderabad International Airport Ltd (HIAL) in the year (2004) and provisions of AERA Act, 2008 for powers of the Central Government to make a policy in fixing the tariff for the Hyderabad Airport pursuant to the judgment dated 10.6.2014 of the Andhra Pradesh High Court.

3. Vide Notes at 1-6/N, the opinion of Ld. AG was sought on the following issues:

- (i) Whether it is mandatory for GOI to make a Policy as per observations in the judgment?
- (ii) In the event of Government making a Policy, would it be legally tenable to apply such a Policy where a legally enforceable agreement has been signed and is in force? Can such a policy have retrospective effect?
- (iii) Section 42(2) of the Act provides for issuance of 'Policy' direction to AERA by Central Government under Section 42(2) of Act to AERA on a case to case basis?
- (iv) Which is the applicable till as per Clause 10.2 and 10.3 read with schedule 6 of Concession Agreement for determination of tariff for the Regulated Charges?,
- (v) Whether the Concession Agreement permits to use the revenues from non-aeronautical activities or services including the revenues from activities of cargo, ground handling or fuelling services and/or non-airport activities, to cross subsidise the charges for aeronautical services?
- (vi) Whether return on equity between 18.5% to 20.5% as suggested by SBI Capital Markets, can be applied for airport sector as a part of tariff policy?
- (vii) Whether land earmarked for non-airport activities should be kept outside the purview of AERA?

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4. Ld. AG while referring to provisions of AERA Act, 2008, Concession Agreement (CA) of HIAL (2004) as well as that of other Airports and directions of the High Court has broadly observed that Section 42(2) of the 2008 Act empowers the Central Government to issue directions on matters of such policy and the hands of the Central government will not be tied to matters referred to in Section 42(1) of the Act only. Ld. AG further observed that in the instant case Concession Agreement is of the 2004 much before the AERA Act, 2008 and the Ministry should take a holistic view keeping in view provisions of CA and the prevailing scenario at different airports as Section 13(1)(a)(vi) of the Act does provide that provisions of the CA will be kept in view while determining tariff. It is also observed that the Ministry will keep all relevant factors in view including the nature of arrangements of Delhi, Mumbai and Bangalore Airports and take a final call.

5. Ld. AG in his opinion at Para 34 (10-11/N) has answered the queries as above stated as follows:

Answer to Q.(i)- It is imperative for the Ministry to make a policy in relation to cross-subsidy from Non -Aeronautical Revenue to offset Aeronautical Charges. In any case, representation of HIAL has to be disposed of by GOI in terms of the judgment of A.P. High Court. The disposal of the representation will necessarily mean that GOI must decide as to whether the cross- subsidies should be in full or in part, as is in the case of Delhi and Mumbai Airports. This would amount to a policy for HIAL, at least.

Answer to Q.(ii)- The CA between HIAL and the Government is still in force. The CA provided that the GOI can decide on the quantum of cross-subsidy and should generally follow ICAO policies. The Government did not decide. AERA has decided on 100% cross- subsidies. If the GOI decides the representation and the quantum of cross- subsidy, the same can be applied in the case of HIAL.

Answer to Q.3(iii)- Policy directions are usually for the industry, but it can be for a specific case. In any event, as per the directive of the A.P. High Court a policy has to be made at least for HIAL which will result in disposal of the its representation.

Answer to Q.4(iv)- I have already answered in the body of opinion that if the view taken is 'cross subsidy' in part, the same will be called a "Hybrid/Shared Till". if the cross-subsidization is effected in full , as directed by AERA , the same will be called " Single Till".

The Central Government through MOCA has to take this call based on varied of factors including prevalent practice in other airports, as already stated hereinabove.

Answer to Q.5(v)- The CA has ^{two} relevant clauses in this behalf. 10.2 deals with "Airport Charges". 10.2.1 deals with those specified in Schedule 6 which are also termed as " Regulated Charges" . Cargo and ground handling services are not to be found in Schedule-6. They are

-997-

therefore, not Regulated Charges. Clause 10.3 deals with "Other Charges". HIAL has a right to determine charges for those facilities which are not covered in "Regulated Charges". Hence, HIAL can charge whatever it desired without any regulation in that behalf. However, under the CA, they will be deemed to be non-regulated services. But it will be necessary to include them under Non- Aeronautical Services. The position under the AERA Act is, however, to the contrary.

Answer to Q.(vi)- I am not in position to answer.

Answer to Q.(vii)- ~~Logically, non-airport activities should be outside the purview of AERA since AERA is related to only regulation of airports and what is outside the precincts should not be in the jurisdiction of AERA. The preamble of the Act and its provisions show that only airports are within the sweep of the Act.~~

6. The opinion of Ld. AG is placed for kind perusal and approval of the Hon'ble MLJ.

May kindly see.

(T. K Malik)
Dy. Legal Adviser
19.01.2015

Shri T.N Tiwari (Addl. Secy).

Law Secretary

[Signature]
19.01.15

T.N Tiwari
19-01-2015
T. N. TIWARI
Additional Secretary

MLJ

[Signature]
20 JAN 2015

Law Secretary

[Signature]
21/01

AS (CNT)

T.N Tiwari
21-01-15
T. N. TIWARI
Additional Secretary

DLA (TKM)

[Signature]
21.1.15

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OPINION

Querist:

GMR Hyderabad International Airport Limited
GMR Aero Towers,
Rajiv Gandhi International Airport,
Shamshabad,
Hyderabad - 500 409

....*Ex-Parte*

Through:

M/s Link Legal
Thapar House,
Central Wing, First Floor,
124 Janpath,
New Delhi - 110 001

Statement of Facts
(as made available by the Querist)

- F-1 GMR Hyderabad International Airport Limited, the Querist herein was initially incorporated by the Government of Andhra Pradesh as Hyderabad International Airport Limited on December 17, 2002 and later changed its name to GMR Hyderabad International Airport Limited, effective November 29, 2005. The registered office of the Company is situated at GMR Aero Towers, Rajiv Gandhi International Airport, Shamshabad, Hyderabad - 500 409.
- F-2 The Querist is a joint venture company promoted on a Public Private Partnership (PPP) model by GMR Infrastructure Limited [GMR] (holding 63% equity), Malaysia Airports Holding Berhad [MAHB] (holding 11% equity), Government of Andhra Pradesh [GoAP] (holding 13% equity) and Airports Authority of India (holding 13% equity), to develop the new Hyderabad International Airport at Shamshabad namely the Rajiv Gandhi International Airport ("RGIA or Airport").
- F-3 After the GMR-MAHB led consortium was selected by the GoAP as the successful bidder for setting up and operating the RGIA, the shares of the Querist were allotted as per the shareholding pattern mentioned above. Vide G.O No.130 issued by the GoAP, whereby the sanction for establishment of the Airport at Shamshabad was granted, the Querist was assured a minimum Equity Internal Rate of Return of 18.33% and any return over and above the 18.33% was to be shared in proportion to the shareholding.
- F-4 The GoAP vide State Support Agreement dated September 30, 2003 agreed to extend financial and other support, including grant of Interest Free Loan, one time grant and among others, acknowledged Equity Internal Rate of Return of 18.33% ("State Support Agreement"). The GoAP vide a Land Lease Agreement dated September 30, 2003 granted about 5500 acres of land on lease towards development of the airport as well as development of other commercial activities including real estate development ("Land Lease Agreement").
- F-5 The Government of India (GoI) vide Concession Agreement dated December 20, 2004 granted the Querist, the exclusive right to carry out the development, commissioning, operation, maintenance and management of the RGIA. Querist had also been granted the right to carry out any activity or business related to or ancillary to the operating and maintenance of the Airport or any other commercial activity, with a further right to grant Service Provider Rights to any third party.

The GoI also granted various concessions to the Querist vide the Concession Agreement and the same along with the provisions of the State Support

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Agreement and the Land Lease Agreement constitute the concession for the RGIA granted to the Querist.

F-6 That vide Gazette of India notification dated 30.12.2008, the Airports Economic Regulatory Authority of India Act, 2008 ("AERA Act") came into force and effect w.e.f. 01.01.2009 except Chapter III and VI of the AERA Act which dealt with the establishment, powers and functions of the Airport Economic Regulatory Authority ("AERA"). AERA was established by the Government of India vide notification No. GSR 317 (E) w.e.f. 12.05.2009 and the Ministry of Civil Aviation vide Gazette Notification dated 31.08.2009 also brought into force and effect the Chapter III and VI of the AERA Act w.e.f. 01.09.2009. Thus, in terms of the Concession Agreement, AERA became the IRA for the purpose of regulating the Regulated Charges.

F-7 Section 2(a) of the AERA Act defines "aeronautical service" as under:

- "a. *"aeronautical service" means any service provided-*
- i. *for navigation, surveillance and supportive communication thereto for air traffic management;*
 - ii. *for the landing, housing or parking of an aircraft or any other ground facility offered in connection with aircraft operations at an airport;*
 - iii. *for ground safety services at an airport;*
 - iv. *for ground handling services relating to aircraft, passengers and cargo at an airport;*
 - v. *for the cargo facility at an airport;*
 - vi. *for supplying fuel to the aircraft at an airport; and*
 - vii. *for a stake-holder at an airport, for which the charges, in the opinion of the Central Government for the reasons to be recorded in writing, may be determined by the Authority;"*

Further, Section 13 of the AERA Act provides for the functions of AERA which is as under:

"1. The Authority shall perform the following functions in respect of major airports, namely:-

- a. *to determine the tariff for the aeronautical services taking into consideration-*
 - i. *the capital expenditure incurred and timely investment in improvement of airport facilities;*
 - ii. *the service provided, its quality and other relevant factors;*
 - iii. *the cost for improving efficiency;*
 - iv. *economic and viable operation of major airports;*
 - v. *revenue received from services other than the aeronautical services;*
 - vi. *the concession offered by the Central Government in any agreement or memorandum of understanding or otherwise;*
 - vii. *any other factor which may be relevant for the purposes of this Act;*

Provided that different tariff structures may be determined for different airports having regard to all or any of the above considerations specified at sub-clauses (i) to (vii);

- b. *to determine the amount of the development fees in respect of major airports;*

- c. *to determine the amount of the passengers service fee levied under rule 88 of the Aircraft Rules, 1937 made under the Aircraft Act, 1934;*

....."

F-8. Pursuant to the aforesaid provisions, AERA has initiated the process of determination of the aeronautical tariff for the RGIA and has also issued a



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Consultation Paper dated May 21, 2013 (the "Consultation Paper") in this regard inviting stakeholder's views and representation on such determination.

- F-9 The Project Cost for development of the Airport for carrying out the Airport Activities (as defined under the Concession Agreement) at the Airport is to be considered for the purpose of determination of aeronautical tariff at the Airport.

QUERIES:

In the back ground of the facts briefly stated hereinabove, considered legal opinion is being sought on the following issues:-

- 1) Whether in view of the provisions of the AERA Act read with the provisions of the Concession Agreement, in respect of RGIA;
 - a) only the Regulated Charges as defined under the Concession Agreement, namely:
 - (i) Landing, Housing and Parking charges;
 - (ii) Passenger Service Fee; and
 - (iii) User Development Fee.can be regulated by AERA? or
 - b) all other charges relating to aeronautical services as defined under the AERA Act over and above the Regulated Charges can also be regulated?
- 2) Whether AERA is entitled to consider the revenue generated through Non-Airport Activities (as defined under the Concession Agreement) while determining the Regulated Charges in respect of RGIA or only the non-aeronautical revenue accruing to the Querist and forming a part of the Airport Activities (as defined under the Concession Agreement) is to be taken into account?
- 3) Whether the minimum Equity Internal Rate of Return of 18.33% as assured by GoAP at the time of granting the sanction for establishment of the Airport at Shamshabad under the G.O. No. 130 as well as captured by the State Support Agreement can be disregarded/reduced post concession by the AERA while determining the tariff for Regulated Charges?
- 4) Whether, for the reasons recorded in the Consultation Paper, AERA has the right to ring fence the land meant for commercial use, from the Regulated Asset Base (RAB) while determining the tariff for Regulated Charges?
- 5) Any other relevant issue(s) that may arise?

OPINION

O-1 I have gone through the Brief of Opinion along with the documents made available for my perusal and held discussions with the Counsel for the Querist.

O-2 Some of the provisions of the Concession Agreement that are relevant for the purpose of the present opinion are as under:

"....
WHEREAS:

"...
Lahoti

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(C) *In the context of a project being undertaken through a public/private sector approach, it is critical that the terms and conditions upon which such a project will be implemented are set out and therefore the parties are entering into this concession agreement (the "Agreement" or the "Concession Agreement").*

(D) *It is the endeavour of the Parties to develop an international standard airport where all airport activities are carried out in a timely manner with requisite performance standards.*

...

"Airport Activities" means the provision, at or in relation to the Airport, of the activities set out at Schedule 3, Part 1 as amended from time to time, pursuant to ICAO guidelines, provided that any activities that are not materially similar to those contemplated in Schedule 3, Part 1 shall require the mutual agreement of the Parties;

"Airport" means the Greenfield international airport comprising of the Initial Phase, to be constructed and operated by HIAL at Shamshabad, near Hyderabad in the State of Andhra Pradesh and includes all its buildings, equipment, facilities and systems and including, where the circumstances so require, any Expansion thereof as per the Master Plan;

"Airport Charges" means:

- (i) amounts charged or imposed by HIAL in respect of the provision or use of the facilities and services which are included within Airport Activities;
- (ii) amounts charged or imposed by HIAL on or in respect of passenger and cargo movement or aircraft traffic into, on, at or from the Airport; and
- (iii) any other amounts deemed by this Agreement to be Airport Charges and further including any amounts to be collected by HIAL on behalf of GoI, GoAP or AAI;

...

"ICAO" means the International Civil Aviation Organisation formed by the Chicago Convention or any successor thereof;

"ICAO Policies" means the first statement of the ICAO Council contained in the "ICAO Policies on Charges for Airports and Air Navigation Services" which was adopted by the Council of ICAO on 22 June 1992, at the 14th Meeting of its 136th Session, and subsequently amended on 8 December 2000, at the 18th Meeting of the 161st Session, and which is published as ICAO document 9082/6 as may be amended from time to time;

...

"Independent Regulatory Authority" or **"IRA"** means the Airports Economic Regulatory Authority or any other regulatory authority set up to regulate any aspect of Airport Activities set up (i) by way of an executive order provided the functioning of the IRA is not within the control of GoI, or (ii) by an Act of Parliament or an ordinance or any rules made thereunder.

...

"Land Lease Agreement" means the document and/or instrument entered into on 30th September 2003 pursuant to which GoAP has granted to HIAL leasehold rights and interests in the Site;

... *R. C. Lahoti*

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"Non-Airport Activities" means the provision, at or in relation to the Airport, of the services set out at Schedule 3, Part 2;

...

"Regulated Charges" shall be as defined in Article 0;

...

"Site" means the land in which HIAL has or shall have a leasehold interest pursuant to the Land Lease Agreement, and measuring approximately 5450 acres in area, on, under and over which the Airport is to be constructed;

...

"State Support Agreement" means the agreement entered into on 30th September 2003 between GoAP and HIAL;

...

3.2 Recognition of Rights

3.2.1 Subject to Applicable Law and in accordance with the provisions of this Agreement, GoI recognises that HIAL may carry out:

*a) any activity or business related or ancillary to the activities referred to in Article **Error! Reference source not found.**, or which HIAL considers desirable or appropriate to be carried on or engaged in connection therewith (including any infrastructure service considered by HIAL to be reasonably necessary for the activities referred to in Article **Error! Reference source not found.**); and*

b) any activity or business in connection with or related to the arrival, departure and/or handling of aircraft, passengers, baggage, cargo and/or mail at the Airport; and

c) any activity or business in connection with or related to the development of the Site or operation of the Airport to generate revenues including the development of commercial ventures such as hotels, restaurants, conference venues, meeting facilities, business centres, trade fairs, real estate, theme parks, amusement arcades, golf courses and other sports and/or entertainment facilities, banks and exchanges and shopping malls.

...

7.5 Airport Opening

HIAL will ensure that the Airport Opening Date shall occur by the Airport Opening Target Date, provided that such date shall be adjusted by reference to any delays arising due to or as a result of:

...

7.5.4 a failure or any delay by GoAP in the performance of its obligations under the State Support Agreement; and/or

7.5.5 a failure or any delay by GoAP in the performance of its obligations under the Land Lease Agreement; and/or

....

10.2 Airport Charges

10.2.1 The Airport Charges specified in Schedule 6 ("Regulated Charges") shall be consistent with ICAO Policies.

10.2.2 The Regulated Charges set out in Schedule 6 shall be the indicative charges at the Airport. Prior to Airport Opening HIAL shall seek approval from the Ministry of Civil Aviation for the Regulated Charges, which shall be based on the final audited Project cost. The Ministry of Civil Aviation shall, subject to the

R. C. Lahoti

Check-in counters
Cleaning, lighting, cooling and air conditioning of public and office areas
Customs and immigration halls
Baggage systems including outbound and reclaim
Flight information and public-address systems
Information desks and staffing
Bus lounge for servicing remote stands
Staircases, lifts and escalators
Passenger boarding bridges (aerobridges)
Lost property
Noise insulation and sound proofing
Passenger and hand baggage search
Piers and gate rooms
Policing and general security
Prayer rooms
Scheduling committee support
Signage for easy orientation of passengers
Staff entries with search and security facilities
Toilets and nursing mothers' rooms
X-Ray service for carry on and checked-in luggage
Airline lounges
Banks / ATM / Bureaux de Change
Business centre
Duty free sales in international section
Hotel reservation services
Restaurants, bars and other refreshment facilities
Special assistance services
Tourist information services
Travel agency
Messenger services
VIP lounges

Infrastructure and utilities for the airport complex (mainly landside)

Airside and landside access roads and forecourts
Utilities (including electricity, telecommunications and water)
Waste water and refuse treatment and disposal
Landscaping and horticulture
Line maintenance services
Public telephones
Vehicle fuelling services
Vehicle rental
Foul and surface water
Drainage
Vehicle parking
Cloak rooms
Conference centre
Freight forwarders/ consolidators/ agents
Retail shops
Lockers
Observation terrace
Porter services
Post office
Trolley services

Schedule 3: PART 2 – NON-AIRPORT ACTIVITIES

Landside Non-Airport Activities include the following services, facilities and equipment:

Offices for freight consolidators/ forwarders or agents at cargo complex, offices for airlines

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proposed Regulated Charges being in compliance with the principles set out in Article 0, grant its approval thereto within a period of forty-five (45) days of the date of the application being submitted by HIAL. Within 120 days after the Airport Opening Date, HIAL shall submit the final audited Project cost to the Ministry of Civil Aviation.

10.2.3 If at any time prior to the date the IRA has the power to approve the Regulated Charges HIAL wishes to amend such charges it shall seek consent from the Ministry of Civil Aviation for such amendments. The Ministry of Civil Aviation shall, subject to the proposed charges being in compliance with the principles set out in Article 0, grant its approval of such amendments within a period of forty-five (45) days of the date of the application being submitted by HIAL.

10.2.4 From the date the IRA has the power to approve the Regulated Charges, HIAL shall be required to obtain approval thereof from the IRA. In this regard HIAL shall submit to the IRA, in accordance with any regulations framed by the IRA, details of the Regulated Charges proposed to be imposed for the next succeeding relevant period together with such information as the IRA may require for review. Unless otherwise agreed in writing between the Parties such approved Regulated Charges shall comply with the principles referred to in Article 0 until the earlier of (i) the date that outstanding Debt in respect of the Initial Phase has been repaid and (ii) fifteen (15) years from Airport Opening Date.

10.3 Other Charges

HIAL and/or Service Provider Right Holders shall be free without any restriction to determine the charges to be imposed in respect of the facilities and services provided at the Airport or on the Site, other than the facilities and services in respect of which Regulated Charges are levied.

...

Schedule 3: PART 1 – AIRPORT ACTIVITIES

Airport Activities include the following services, facilities and equipment:

Airside facility

*Airfield pavements (runway, apron and taxiway system)
Airfield ground lighting
Airside and perimeter security including access control and patrolling
Taxiways including one emergency take off runway/parallel taxiway
Apron control and allocation of aircraft stands
Arrivals concourses
Bird scaring
Emergency services
Crash, rescue and fire service
Flight catering services
General aviation ground handling
General aviation facilities
Ground handling services
Ground handling equipment
Ground power for aircraft
Cargo terminal
Cargo handling and cargo terminal operations, custodial services
Aircraft cleaning services
Aircraft fuelling services
Hangars and aircraft maintenance services
Pre-conditioned air for aircraft
Pavement surface water drainage
Guidance systems and marshalling*

Airside / landside / terminal facilities

Facilities for the disabled and other special needs people

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Bus terminal for local and regional buses, Airport shuttle transport services (hotels, city centre, etc.)

Business parks

Airport hotels, restaurants, conference venues, meeting facilities, business centres, trade fairs, real estate, theme parks, amusement arcades, golf courses, sports facilities, banks and exchanges and shopping malls

Commercial buildings / complexes/ entertainment complexes/ tourist related activities

Independent power producing plants for emergency supply may be established in connection with business parks

Viewing point (at an existing hilltop) with parking, access and small food and beverage facility

Any other revenue generating activity related to the development of the Site or of the Airport in relation to Non-Airport Activities

.....

Schedule 6: Regulated Charges

Pursuant to and without prejudice to the principles set out in Article 10.2 of this Agreement, HIAL shall be entitled to levy and recover from airline operators, passengers and other users and in respect of both domestic and international aircraft and passenger movements, at rates consistent with ICAO Policies, the following Regulated Charges:

- (i) *Landing, Housing and Parking charges (domestic and international):*
The charges to be adopted by HIAL at the time of Airport Opening will be the higher of:
- (a) *The AAI tariff effective 2001 duly increased with inflation index, as set out hereunder, up to the Airport Opening Date, or*
- (b) *The then prevailing tariff at the other AAI airports.*
- (ii) *Passenger Service Fee (domestic and international):*
The charges to be adopted by HIAL at the time of Airport Opening will be the higher of:
- (a) *The AAI tariff effective 2001 duly increased with inflation index, as set out hereunder, up to the Airport Opening Date, or*
- (b) *The then prevailing Passenger Service Fee at the other AAI airports.*

The Passenger Service Fee chargeable by HIAL, as given above, is inclusive of the cost of security expenditure on Central Industrial Security Force (CISF). This component of the cost towards security expenditure on CISF shall be revised upwards by HIAL as and when directed by GoI, subject to the provision that such increases will also be accompanied by similar increase in the Passenger Service Fee.

(iii) *User Development Fee (UDF) (domestic and international):*
HIAL will be allowed to levy UDF w.e.f. Airport Opening Date, duly increased in the subsequent years with inflation index as set out hereunder, from embarking domestic and international passengers, for the provision of passenger amenities, services and facilities and the UDF will be used for the development, management, maintenance, operation and expansion of the facilities at the Airport.

The Regulated Charges set out in Schedule 6 shall be the indicative charges at the Airport. Prior to Airport Opening HIAL shall seek approval from the Ministry of Civil Aviation for the Regulated Charges, which shall be based on the final audited Project cost.

- Note: (a) Charges will be calculated on the basis of nearest MT (i.e. 1000 kg)*
- (b) The minimum fee per single landing will be INR 1000*
- (c) Peak hour surcharge on international landing between 2301 hrs (IST) to 2400 hrs (IST) will be 5%*
- (d) If US\$ rates are to be charged the following rule for conversion. US\$ into INR the rate as on the 1st day of the 1st fortnight billing period*

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and rates as on the 16th of the month for the 2nd fortnightly billing period, will be applicable.

(e) All tariffs are net for HIAL. Any taxes such as service tax, if applicable, will be over and above the tariff proposed.

Formula for inflation index:

Base fee (multiplied by) WPII (divided by) WPI where,

WPI is the WPI for 'All Commodities'

WPI = is the WPI as on March 31st, 2001

WPII = is the WPI as on March 31st preceding the fee revision date

For the avoidance of doubt, Route Navigation Facilities Charges and Terminal Navigational Landing Charges shall be levied and collected by AAI."

Some of the provisions of the State Support Agreement relevant for the present opinion are as under:

"*RECITALS:*

...
E. The Project is feasible only with State Support (as defined hereinafter) of GoA, and both GoI and GoAP have agreed and accepted that the implementation of the Project and the operation of the Project and its facilities requires extensive and continued support and actions and grant of certain rights and authorities by GoAP which are pre-requisites to the mobilisation of resources (including financial resources) by HIAL and the performance of HIAL's obligations under the Concession Agreement, and therefore, the GoAP has agreed to provide the State Support to HIAL as set out in this Agreement.

2.1 Support

GoAP acknowledges and agrees that the Project is feasible only with the support of GoAP, and that the principal objective of this Agreement is support for the economic and timely completion of the Project pursuant to the terms of the Concession Agreement, and has therefore agreed to provide the State Support to HIAL as set out in this Agreement.

2.3

...
(b) Interest Free Loan ("IFL")

(i) GoAP shall make available to the HIAL, an IFL in the sum of Rs.3,15,00,00,000 (Rupees three hundred and fifteen crores). IFL shall not in any circumstances attract interest repayments. GoAP agrees and accepts that the IFL may be adjusted pro-rata upwards or downwards on completion of the DPR, if the determination is made that such pro-rata adjustment is required as a result of change to the Project cost and so as to maintain equity internal rate of return at 18.33%."

Some of the provisions of the Land Lease Agreement relevant for the present opinion are as under:

"*RECITALS:*

...
E. The Project is feasible only with State Support of the Lessor, and as a part of the State Support to be made available by the Lessor to the Lessee, pursuant to the State Support Agreement, the Lessor has agreed to provide on lease to the Lessee contiguous unobstructed, unencumbered and freehold land owned and possessed by the Lessor measuring about 5,000 (Five Thousand Acres) at Shamshabad, near Hyderabad, as described in Schedule 1 to this Agreement and shown on the site plan attached hereto as Schedule 2 (the "Land"), and the



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Lessee has agreed to accept the land on lease subject to and on the terms and conditions contained in this Agreement.

...

3.1 Purpose

(a) *The Lessor hereby agrees and accepts that the Lessee has been granted the Lease of the Land to build own and operate the Airport in accordance with the terms of the Concession Agreement, and accordingly, the Lessee shall be entitled to set up the Airport at the Land and make additions, alternations to the Land or part thereof, and as of the date of this Agreement there is no restriction or disability under the Laws to the contrary.*

(b) *The Lessee shall have an exclusive right to develop facilities which are capable of being developed and operated in conjunction with the Airport, including but not restricted to hotels, resorts, flight catering, air craft maintenance, cargo and logistics center, convention center, golf courses, recreational and entertainment facilities, facilities, industrial facilities, fuel farms, terminalling facilities, power plants, storage and processing terminals, water treatment facilities, commercial and residential complexes or such other incidental activities or services provided at the Airport or required for the Airport's customers, agents, contractors or employees and to undertake any other lawful commercial activity at the Airport."*

O-3 A conjoint reading of the above documents, namely the Concession Agreement, State Support Agreement and the Land Lease Agreement indicate that the same jointly and severally constitute the 'Concession' granted to the Querist and has to be read together as one cannot have an existence independent of the other.

O-4 A conjoint reading of the above documents, namely the Concession Agreement, State Support Agreement and the Land lease Agreement further indicates that the following concessions and assurances (relevant for the present queries) have been granted to the Querist at the time of the grant of the right/concession to develop the Airport, namely:

(i) Under Clause 10.2 read with Schedule 6 of the Concession Agreement, only Airport Charges defined as the 'Regulated Charges' are to be regulated by the IRA (i.e. AERA).

(ii) Under Clause 10.2.4 of the Concession Agreement, the Regulated Charges shall be approved in consonance with ICAO Policies until the earlier of (i) the date that outstanding Debt in respect of the Initial Phase has been repaid and (ii) fifteen (15) years from the Airport Opening Date.

(iii) In view of Clause 10.3 of the Concession Agreement, the Querist shall "*be free without any restriction*" to determine all Other Charges which are levied in respect of all other facilities and services at the Airport.

(iv) The Concession Agreement defines and differentiates between mandatory 'Airport Activities' consisting of aeronautical as well as non-aeronautical activities at the Airport and non-mandatory 'Non-Airport Activities' which the Querist is entitled to undertake at the Land (as defined under the Land Lease Agreement).

(v) Assurance of a minimum return on equity of 18.33% as captured by the State Support Agreement being an integral part of the concession granted to the Querist.

O-5 The Concession Agreement (in terms of Article 10.2 and 10.3) has classified only two types of charges at RGIA i.e. Regulated Charges and Other Charges for the

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Airport Activities carried out at the Airport by the Querist consisting of both aeronautical as well as non-aeronautical activities. The Concession Agreement also defines "Regulated Charges" under Article 10.2.1 to mean only such Airport Charges as specified in Schedule 6 of the Concession Agreement and thus in terms of Schedule 6, Regulated Charges means the following charges i.e. (i) Landing Housing and Parking charges, (ii) Passenger Service Fee and (iii) User Development Fee.

- O-6 While Article 10.2 read with Schedule 6 of the Concession Agreement mandates that the IRA i.e. AERA (pursuant to being empowered for the purpose) shall approve/determine the Regulated Charges, Article 10.3 states unequivocally that except the Regulated Charges mentioned in Schedule 6, the Querist shall "*be free without any restriction*" to determine all Other Charges which are levied in respect of the activities defined as the Airport Activities at the Airport. Other Charges have been defined in Article 10.3 to include all facilities and services provided at the Airport except facilities and services in respect of which Regulated Charges are levied. In other words, the Concession Agreement provides that while AERA shall be empowered to regulate all Regulated Charges mentioned in Schedule 6, the power to determine all charges other than Regulated Charges rests with the Querist.
- O-7 Thus, the Concession Agreement makes a clear distinction between charges which require determination by AERA [i.e. Airport Charges (which are Regulated Charges) and those which can be fixed by the Querist itself [i.e. Other Charges (which are also Airport Charges but are not subject to regulation by AERA)].
- O-8 It is pertinent to note that Section 13 of the AERA Act which empowers AERA to determine the tariff of "aeronautical services" in respect of major airports mandates AERA to take various factors into consideration for determining the tariff. Section 13 of the AERA Act states as under:

"13. Functions of authority- (1) The Authority shall perform the following functions in respect of major airports, namely:-
(a) to determine the tariff for the aeronautical services taking into consideration-
(i) the capital expenditure incurred and timely investment in improvement of airport facilities;
(ii) the service provided, its quality and other relevant factors;
(iii) the cost for improving efficiency;
(iv) economic and viable operation of major airports; (v) revenue received from services other than aeronautical services
(v) revenue received from services other than the aeronautical services;
(vi) the concession offered by the Central Government in any agreement or memorandum of understanding or otherwise;
(vii) any other factor which may be relevant for the purposes of this Act:
Provided that different tariff structures may be determined for different airports having regard to all or any of the above considerations specified at sub-clauses (i) to (vii)" (...emphasis added)

A perusal of Section 13 of the AERA Act makes it clear that while determining tariff for aeronautical services, AERA is statutorily obligated to consider the concession offered to the Airport Operators like the Querist by the Central Government and the other agreements which form an integral and inalienable part of such concession. Thus, no determination of tariff can be carried out by AERA which undermines the concession offered to the Airport Operators like the Querist by the Central Government. This is so, as a contextual reading of Section 13(1)(a)(vi) indicates that the concession granted by the Central Government has to be read into the AERA Act and all its provisions as well as limitations contained therein have to be considered by AERA while determining tariff

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including while deciding which services in a particular case and in terms of the relevant Concession, can be regulated by AERA. This is further confirmed by a reading of the proviso to Section 13(1)(a) of the AERA Act which states that "different tariff structures may be determined for different airports having regard to all or any of the considerations specified at sub-clauses (i) to(vii)" in the said section. In other words, the AERA Act recognizes that a straightjacket applicability of its provisions to all major airports is not intended and grants flexibility to AERA to determine tariff structures to different airports having regard to various considerations including the concession granted by the Central Government. In fact, while determining the tariff for aeronautical services in respect of Delhi and Mumbai airports respectively, the Querist has informed me that AERA has given due consideration to the concessions granted to the respective airport operators at the said Airports.

O-9 Thus, even though the AERA Act empowers AERA to regulate tariff for Aeronautical Service as defined in Section 2(a) of the AERA Act, in case any concession has already been granted by the Central Government, AERA is statutorily mandated to consider such concession. In the case of RGIA, since one of the concession granted to the Querist by the Central Government is that save for the 'Regulated Charges', the Querist shall be free without any restriction to determine all Other Charges. Thus, on a reading of Section 13(1)(a)(vi) of the AERA Act read with Article 10.2 and 10.3 of the Concession Agreement, AERA is only empowered to regulate the Regulated Charges as defined in the Concession Agreement (as an exception to the mandate of the Act which is recognized and allowed by the Act itself) and cannot regulate any Other Charges in respect of the facilities and services provided at the Airport including the other Aeronautical Services as defined in Section 2(a) of the AERA Act.

O-10 Further under Article 3.1 of the Concession Agreement, the Central Government has granted to the Querist "the exclusive right and privilege to carry out the development, design, financing, construction, commissioning, maintenance, operation and management of the Airport" In addition to the above, under Article 3.2.1 of the Concession Agreement, the GoI has recognised the following rights of the Querist:

- "a) any activity or business related or ancillary to the activities referred to in Article Error! Reference source not found. or which HIAL considers desirable or appropriate to be carried on or engaged in connection therewith (including any infrastructure service considered by HIAL to be reasonably necessary for the activities referred to in Article Error! Reference source not found.); and
- b) any activity or business in connection with or related to the arrival, departure and/or handling of aircraft, passengers, baggage, cargo and/or mail at the Airport; and
- c) any activity or business in connection with or related to the development of the Site or operation of the Airport to generate revenues including the development of commercial ventures such as hotels, restaurants, conference venues, meeting facilities, business centres, trade fairs, real estate, theme parks, amusement arcades, golf courses and other sports and/or entertainment facilities, banks and exchanges and shopping malls. (...emphasis added)

O-10.1 Thus, in addition to the rights granted to the Querist for setting up and operating the RGIA, certain additional rights have been granted for the purpose of development of the additional land for purely commercial purposes not relating to the airport activity. In this regard, as noticed hereinabove, the Concession Agreement also makes a distinction between "Airport Activities" and Non-Airport Activities". While Airport Activities has been defined under Article 1.1 of the Concession Agreement to mean "the provision, at or in relation to the

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Airport, of the activities set out at Schedule 3, Part 1 as amended from time to time, pursuant to ICAO guidelines, provided that any activities that are not materially similar to those contemplated in Schedule 3, Part 1 shall require the mutual agreement of the Parties", Non-Airport Activities means "the provision, at or in relation to the Airport, of the services set out at Schedule 3, Part 2".

O-10.2 A bare perusal of Schedule 3, Part 1 of the Concession Agreement shows that non-aeronautical activities like business centre, duty free, restaurants, bars etc. have been included within the Airport Activities along with the aeronautical activities. Such non-aeronautical activities are therefore an integral part of the Airport Activities. However Schedule 3, Part 2 of the Concession Agreement provides for the Non-Airport activities which consists of purely commercial activities including real estate activities. These activities are totally unconnected with the Airport Activities. A perusal of Clause 3.1 of the Land Lease Agreement provides as under:

"3.1 Purpose

- (a) The Lessor hereby agrees and accepts that the Lessee has been granted the Lease of the Land to build own and operate the Airport in accordance with the terms of the Concession Agreement, and accordingly, the Lessee shall be entitled to set up the Airport at the Land and make additions, alternations to the Land or part thereof, and as of the date of this Agreement there is no restriction or disability under the Laws to the contrary.*
- (b) The Lessee shall have an exclusive right to develop facilities which are capable of being developed and operated in conjunction with the Airport, including but not restricted to hotels, resorts, flight catering, air craft maintenance, cargo and logistics center, convention center, golf courses, recreational and entertainment facilities, facilities, industrial facilities, fuel farms, terminalling facilities, power plants, storage and processing terminals, water treatment facilities, commercial and residential complexes or such other incidental activities or services provided at the Airport or required for the Airport's customers, agents, contractors or employees and to undertake any other lawful commercial activity at the Airport.*

...."

Thus, unlike the concessions granted by the Central Government in respect of the Delhi and Mumbai Airports, the Concession Agreement in respect of RGIA clearly segregates the Airport Activities from Non-Airport Activities in as much as the Airport Activities includes both aeronautical and non-aeronautical activities. It would also be worthwhile to note that while the provision for "Airport Activities" shall have to be in consonance with ICAO guidelines, the provisions for "Non-Airport Activities" need not conform to ICAO guidelines thus clarifying the position that the Non-Airport Activities are totally unconnected to the Airport business and thus an additional right/incentive for the Querist for setting up and operating a greenfield airport.

O-11 I have been informed that outstanding debt in respect of the Initial Phase of the RGIA still remains unpaid. As such, for 15 years from the Airport Opening Date, the determination of the tariff for the Regulated Charges shall conform to the ICAO Policies. Further, ICAO Policies has been defined in Article 1.1 of the Concession Agreement to mean *"the first statement of the ICAO Council contained in the "ICAO Policies on Charges for Airports and Air Navigation Services" which was adopted by the Council of ICAO on 22 June 1992, at the 14th Meeting of its 136th Session, and subsequently amended on 8 December 2000, at the 18th Meeting of the 161st Session, and which is published as ICAO document 9082/6 as may be amended from time to time"*.

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- O-12 The Ninth Edition, ICAO document 9082 of ICAO Policies on Charges for Airports and Air Navigation Services provides that State should exercise the economic oversight responsibilities. The relevant provisions of the same provides as under:

“Economic oversight

12. States’ exercise of their economic oversight responsibilities should be clearly separated from the operation and provision of airports and air navigation services, with roles and powers clearly defined for each function.

13. The main purpose of economic oversight should be to achieve a balance between the interests of airports and ANSPs, including government-operated providers, and those public policy objectives that include, but are not limited to, the following:

- i) Minimize the risk of airports and ANSPs engaging in anti-competitive practices or abusing any dominant position they may have;*
- ii) Ensure non-discrimination and transparency in the application of charges;*
- iii) Ascertain that investments in capacity meet current and future demand in a cost-effective manner; and*
- iv) Protect the interests of passengers and other end-users.*

To promote these objectives, consistent with the form of economic oversight adopted, States should ensure that airports and ANSPs consult with users and that appropriate performance management systems are in place.

14. States should adopt an approach to economic oversight that meets their specific circumstances. The degree of competition between providers, the costs and benefits of different forms of oversight, as well as the legal, institutional and governance frameworks should be taken into consideration when selecting the appropriate approach. Regulatory interventions should be used only when required and kept to a minimum.

15. States should consider adopting a regional approach to economic oversight where individual States lack the adequate capacity to perform their economic oversight responsibilities.

...

SECTION II. ICAO’S POLICIES ON AIRPORT CHARGES

The cost basis for airport charges

- 1. As a general principle it is desirable, where an airport is provided for international use, that the users shall ultimately bear their full and fair share of the cost of providing the airport. It is therefore important that airports maintain accounts that provide information adequate for the needs of both airports and users, and that the facilities and services related to airport charges be identified as precisely as possible. In determining and allocating the total cost to be met by charges on international air services, the list in Appendix 1 may serve as a general guide to the facilities and services to be taken into account.*
- 2. In determining the cost basis for airport charges, the following principles should be applied:*
 - i) The cost to be allocated is the full cost of providing the airport and its essential ancillary services including appropriate amounts for cost of capital and depreciation of assets, as well as the costs of maintenance, operation, management and administration. Consistent with the form of*



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economic oversight adopted, these costs may be offset by non-aeronautical revenues.

(...emphasis added)

- O-13 Thus, in terms of the ICAO Policies, in determining and allocating the total cost to be met by charges on international air services, the list in Appendix I serve as general guide. A perusal of Appendix I shows that the facilities and services stated therein are airport centric and are similar to the activities stated in Schedule 3, Part I which are not only aeronautical but also non-aeronautical in nature . I have also been informed that the "total project costs" for RGIA as determined by the Querist for the purposes of return on equity includes the project cost relating to "Airport Activities" only and not "Non-Airport Activities". From the above it can safely be concluded that in consonance with the ICAO policy, while determining airport charges/ tariff on cost basis, the Regulator (AERA) may decide to offset the cost by non-aeronautical revenues generated from the "Airport Activities" of the Querist. As already stated above, the State i.e. in the case of Querist the Government of India through Ministry of Civil Aviation, has already decided and agreed that particular charges i.e. Regulated Charges shall only be regulated.
- O-14 However in view of a categorical differentiation carved out under the Concession Agreement between Non-Airport Activities and Airport Activities, I am of the considered view that revenues generated from the Non-Airport Activities as defined under the Concession Agreement cannot be considered by AERA for the purpose of determining the airport charges/ tariff at the RGIA.
- O-15 In fact, the above conclusion is supported by the intention the GoAP for grant of lease of Land admeasuring 5500 acres to the Querist as is further clarified by the letter of GoAP dated March 3, 2011 issued to AERA wherein GoAP clearly states as under:
- "Setting up the airport in the Greenfield location of Shamshabad was with the intention of socio-economic development of the region and also overall development of tourism and industrial development of the State. Considering these objectives, the land of 5500 acres was leased to the GHIAL for development of airport as well as non-airport activities to suitably incentivize the airport operator without any reference to target equity IRR."*
- O-16 It is worthwhile to mention that the concession granted to the Querist for the construction, development, operation and maintenance of RGIA include the following:
- a) concession granted to the Querist under the Concession Agreement;
 - b) concession granted to the Querist under the State Support Agreement dated September 30, 2003;
 - c) concession granted to the Querist under the Land Lease Agreement dated September 30, 2003.
- Further, in absence of any of the above concessions, not only the project for setting up and operating of RGIA would become unviable but it would also not be possible for the Querist to fulfill its obligations under the Concession Agreement. Thus, the concession granted to the Querist include not only the Concession Agreement but also the State Support Agreement and the Land Lease Agreement executed by the GoAP in favour of the Querist.
- O-17 It may further be noted that pursuant to GMR-MAHB led consortium was selected by GoAP as the successful bidder for setting up and operating the RGIA, the Querist was formed as a special purpose vehicle wherein GMR Infrastructure Limited [GMR] (holding 63% equity), Malaysia Airports Holding Berhad [MAHB] (holding 11% equity), Government of Andhra Pradesh [GoAP] (holding



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13% equity) and Airports Authority of India (holding 13% equity) are the shareholders. Further, vide G.O No.130 issued by the GoAP, the Querist was assured a minimum Return on Equity of 18.33% and any return over and above the 18.33% was to be shared in proportion to the shareholding stated above.

- O-18 The return of 18.33% is also recognised in the State Support Agreement which is clarified from a reading of Clause 2.3(b)(i) which states as under:

"GoAP shall make available to the HIAL, an IFL in the sum of Rs.3,15,00,00,000 (Rupees three hundred and fifteen crores). IFL shall not in any circumstances attract interest repayments. GoAP agrees and accepts that the IFL may be adjusted pro-rata upwards or downwards on completion of the DPR, if the determination is made that such pro-rata adjustment is required as a result of change to the Project cost and so as to maintain equity internal rate of return at 18.33%."

(...emphasis supplied)

- O-19 Further, the factum of 'concession' granted to the Querist under the State Support Agreement being inherent to the Concession Agreement is also clear from the fact that not only the State Support Agreement predates the Concession Agreement but the same is also recognised under Article 1.1 of the Concession Agreement.
- O-20 It may also be noted that in terms of Clause 7.5 of the Concession Agreement, non-performance by GoAP either under the State Support Agreement or the land Lease Agreement has the effect of relieving the Querist from its obligations under the Concession Agreement. In fact, a perusal of the Recital Clause E of the State Support Agreement which provides that *"the Project is feasible only with State Support (as defined hereinafter) of GoA, and both GoI and GoAP have agreed and accepted that the implementation of the Project and the operation of the Project and its facilities requires extensive and continued support and actions and grant of certain rights and authorities by GoAP which are pre-requisites to the mobilisation of resources (including financial resources) by HIAL and the performance of HIAL's obligations under the Concession Agreement"* clearly shows that both the Concession Agreement and the State Support Agreement are intertwined and the performance of obligations under one of the agreement has a direct bearing on the other.
- O-21 Thus the minimum return on equity of 18.33% promised under the GO No.130 dated July 26, 2003 issued by GoAP and the State Support Agreement is integral to the concession itself being a fundamental premise of the said concession and cannot be read in isolation or disregarded/ varied once the Parties to the concession have recognised, accepted and acted on the same/ altered their position.
- O-22 In view of the above, it would not be open to the AERA to alter or vary the assurance of 18.33% return on equity granted to the Querist and any determination to be made by AERA would have to take the said concession into account.
- O-23 In view of the foregoing discussions, it appears that neither the land earmarked for development of Non-Airport Activities nor the cost of setting up and carrying out the Non-Airport Activities is to be considered for the purpose of arriving at 'total project costs' of the Airport. The Querist is permitted to utilise the said land parcel out of the total Land for carrying out Non-Airport Activities which are purely commercial, real estate and totally unconnected with the Airport business.
- O-24 As such the value of the land earmarked for Non-Airport Activities (market or notional) cannot be included in nor deducted from the RAB and accordingly the revenue generated therefrom cannot be taken into account for cross subsidizing the aeronautical tariff for the Airport. Any such move will jeopardise and defeat



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the very purpose of concessions granted under the Concession Agreement, State Support Agreement and Land Lease Agreement.

O-25 Before I proceed to sum up my conclusions, I would like to state that in formulating this opinion generally and, in particular that AERA while exercising its power under Section 13(1)(a)(vi) of the AERA Act, must have due regard and consideration for the 'concessions' and the ICAO policy, I have kept in my mind a few settled principles of law, which are briefly set out hereunder:-

- (i) 'Concessions' are obligations incurred by the Government of India and the State Govt. in exercise of the Executive Power of State. Exercise of statutory power under a subsequent enactment, posterior to the date of concession agreement if exercised literally may have the effect of upsetting the fundamental foundation or understanding of the parties on which the Concession Agreement was entered into; if so, it would have the effect of frustrating the agreement itself absolving the concessionaire of all its obligations under the agreement by virtue of the provisions contained in Section 56 of Indian Contract Act.
- (ii) The power conferred on AERA is a quasi-judicial power, which has to be exercised by taking into consideration all the relevant facts and circumstances (including the obligations incurred by the Government in favour of any party) and excluding from consideration the irrelevant facts. Even otherwise AERA being an authority created by a statute shall have to exercise its power reasonably (and not arbitrarily) as mandated by Article 14 of the Constitution.
- (iii) ICAO is an International Convention and a treaty to which India is a signatory. Such international treaties and conventions stand on a high pedestal (see Articles 253 and 51 (c) of the Constitution of India). This is a relevant consideration to be kept in mind while interpreting any law. (see *People's Union for Civil Liberties v. Union of India*, AIR 1997, SC 568, 575; *Nair Service Society v. State of Kerala* (2007) 4 SCC 1, para 33). AERA may not exercise its powers in a manner which may have the effect of by passing or running in conflict with ICAO documents.
- (iv) Section 13 (1)(a) contemplates 'determination' of tariff by 'taking into consideration' the factors enumerated there under. 'Taking into consideration' is an expression often used by the Legislature in drafting enactments. What is its impact? The dictionary meaning of the term 'consider' *inter alia* is - 'to review attentively', 'to give heed to', 'to take note of' (see *Corporation of City of Bangalore v. Kesoram Industries* AIR 1990, SC 322). In *State Government of NCT of Delhi v. RC Anand* 2004, 4 SCC, 615, para 12, the Supreme Court has held that 'consideration' implies application of mind. Thus, in other words, what has to be considered, cannot be ignored.
- (v) The contents of Concession Agreement show that the GoI was conscious of the fact that there would be Regulation and a Regulatory Authority would be in place. With that awareness 'Regulated Charges' and Unregulated Charges have been defined and distinction drawn between aeronautical and non-aeronautical services. The deal with the Querist though evidenced by three documents, it is one composite package drawn in national interest. The Act has to be so interpreted and the power of



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AERA have to be so exercised so as to honour the deal and protect the concession rather than temper with it.


To sum up:

- 1) While construing Section 13(1)(a)(vi) of the AERA Act and acting thereunder, Article 10.2 and 10.3 of the Concession Agreement, and other provisions thereof have to be kept in view. The AERA would be justified, and that would be a fair and just exercise of power, if the AERA may regulate the Regulated Charges as defined in the Concession Agreement and may not regulate any Other Charges in respect of the facilities and services provided at the Airport.
- 2) In view of a categorical differentiation craved out under the Concession Agreement wherein Non-Airport Activities are completely unconnected to the Airport business, the revenues generated through the Non-Airport Activities under the Concession Agreement cannot be considered by AERA to offset cost for the purpose of determining the tariff for Regulated Charges.
- 3) The minimum return on equity of 18.33% promised under the GO No.130 dated July 26, 2013 issued by GoAP and the State Support Agreement is integral to the concession itself being a fundamental premise of the said concession and cannot be read in isolation or disregarded/ varied once the Parties to the concession have recognised, accepted and acted on the same/ altered their position. It would thus not be open to the AERA to alter or vary the assurance of 18.33% return on equity granted to the Querist and any determination to be made by AERA would have to take the said concession into account.
- 4) The value of the land earmarked for Non-Airport Activities (market or notional) cannot be included in nor deducted from the RAB and accordingly the revenue generated therefrom cannot be taken into account for cross subsidising the aeronautical tariff for the Airport.
- 5) No other advise or suggestion is called for at present.

Opined accordingly.

Disclaimer:

This Opinion is given in confidence and is subject to all legal professional privilege. It records the position of law as understood bonafide by the undersigned, based on the facts and documents as made available by the Querist, and is intended to explain the same to the Querist. The opinion does not bind the Querist, and before acting thereon, the Querist is free to form its own independent judgment by having such other consultation as it may choose to have. The opinion is not meant to be filed in any Court of Law or Tribunal and cannot be used in any criminal proceedings for prosecution or defense.


(R. C. Lahoti)
July 02, 2013

RTI Matters

No.AV-34010/298/2020-AD
भारत सरकार / Government of India
नागर विमानन मंत्रालय / Ministry of Civil Aviation
ए.डी. अनुभाग / AD Section

'B' Block, Rajiv Gandhi Bhawan
Safdarjung Airport, New Delhi
Dated, the January, 2021

To

Shri Ram Kumar M,
Plot No.97, RTC Colony, Hayathnagar,
Ranga Reddy District,
Hyderabad, Telangana- 501505.

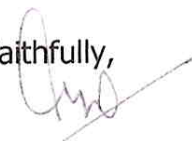
Subject: Request for providing information under RTI Act, 2005.

Sir,

Please refer to this Ministry's letter of even number dated 05.11.2020, 07.12.2020, and your RTI applications with Registration No. MOCAV/R/E/20/00616 & 618 dated 06.10.2020 and email dated 18.11.2020 and find enclosed photocopies of the information sought by you therein, under the provisions of RTI Act, 2005.

2. The First appeal in the matter in respect of issue relating to AD Section of the Ministry lies with Shri Debashish Halder, Deputy Secretary, Ministry of Civil Aviation, 3rd Floor, B-block, Rajiv Gandhi Bhawan, New Delhi-110003 Tel: 24610386.

Yours faithfully,



(S.K. Singh)

CPIO/ Under Secretary to the Govt. of India
27.
Tel: 24610361

Encl: As above

Copy to: C&W Section, MoCA/PA to US(SKS)/ Guard File.

OFFICE OF THE SOLICITOR GENERAL OF INDIA

#####

1. The Ld Attorney General for India has marked this file to me for my opinion on the following query:

A. *Whether the activities relating to cargo, ground handling and fuelling services (CGF) mentioned in Schedule-3 Part 1 of Concession Agreement of Rajiv Gandhi International (RGI) Airport, Hyderabad may be treated as non-aeronautical activities for the purpose of tariff determination by Airport Economic Regulatory Authority (AERA)?*

B. *Generally."*

2. I have perused the file and the documents annexed thereto, which includes the notings of the Hon'ble Minister of Law and Justice, the opinions rendered by my esteemed former colleagues i.e. the opinion dated 14.01.2015 rendered by former Attorney General for India Shri Mukul Rohatgi and the opinion dated 14.08.2017 rendered by former Solicitor General of India, Shri Ranjit Kumar. I have also perused the Statement of Case prepared by the Querist along with documents annexed thereto.

3. Before opining on the query placed before me, it is essential to refer to the series of events which has led to the aforementioned queries. The said facts as stated in the statement of case prepared by the Querist summarized as under:-

3.1- A Concession Agreement (CA) dated 20.12.2004 was entered into between, Querist and Hyderabad International Airport Limited (HIAL) for the development, construction, operation and maintenance of Rajiv Gandhi International Airport (RGIA) at Hyderabad. The CA classifies various activities into Airport Activities and Non-Airport Activities. Perusal of CA reveals that cargo, ground handling and fuelling services (CGF) activities fall into Airside activities within Airport Activities (vide Schedule 3 Part 1 of CA). Perusal of Schedule 6 of the CA further reveals that CGF are not mentioned in the regulated charges. It may be noted that at the time of entering into CA, the Airport Economic Act, 2008 (AERA Act) was not enforced and the field was occupied by the Airport Authority of India Act, 1994.

3.2- The Airport Economic Regulation Act, 2008 (AERA Act) came into force w.e.f 01.01.2009. The AERA Act has two categories i.e. the aeronautical activities and the non-aeronautical activities. Meaning thereby, that AERA is empowered to determine the tariffs for all aeronautical activities as per section 13 of the AERA Act.

3.3- HIAL wrote a letter dated 20.04.2014 to the Querist requesting for issuing directions to AERA under Section 42 of AERA Act for fixation of regulated charges at RGIA, Hyderabad in line with CA. It has been stated by the administrative ministry that the above request of HIAL was examined in the context of Consultative Paper (CP) No. 9/2013-14 dated 21.05.2013 issued by AERA. It was brought to my notice that based on the discussion held during the meeting dated 31.07.2013 of Secretary (CA) with the concerned stake holders, three broad issues (a) relating to Regulatory Asset base (RAB) and Depreciation; (b) Fair Rate on Return of Equity (ROE) and (c) in respect of Regulatory Till, the issue relating to treatment of (CGF) were considered. Considering the aforesaid discussion, provisions of AERA Act, CA signed by Querist, State Support Agreement & Lease Deed signed (by State Government), the file was submitted for decision of Hon'ble Minister of Civil Aviation, who inter-alia, decided as under:

"In view of the various provisions of AERA Act with respect to the Aeronautical Services, the Fuel Throughout Charges that is levied by Airport operator. The revenue from cargo, ground handling services and fuel supply which are defined as Aeronautical services in the AERA Act may be reckoned as Aeronautical Revenues and considered accordingly of the provisions irrespective of the providers of such Aeronautical Services. On other issues mentioned in the Note (available on page 8-11/N)/draft letter, the government may not be required to respond since there is no justification for that".

3.4- It has been further brought to my notice that since the final decision did not warrant any change in the proposal of AERA in Consultative Paper, the decision was not conveyed to AERA. In the meantime, AERA issued final order dated 24.02.2014 in respect of determination of multilayer tariff for HIAL based on the 'Single Till' model. Aggrieved with the AERA's Tariff Order, HIAL filed a Writ Petition no. 6487/2014 before the Hon'ble High Court of Andhra Pradesh, inter-alia, challenging the order of AERA for not being in consonance with CA. In the writ petition, HIAL's contention was that the order of AERA dated 24.02.2014 prescribing 'Single Till' tariff mechanism to HIAL, depreciating the land value earmarked for non-airport activities from Regulatory Asset Base (RAB), issue of Return of Equity (ROE), etc. was against the CA. The Hon'ble Court disposed of the matter on 10.06.2014 with the following directions to the Union of India, which reads as under:

"57. Section 42(2) is a residuary provision which rests power in the Central Government to prescribe policy concerning any issue covered by the Act, 2008 and once policy is formulated by the Central

Government the same shall be binding on AERA, even though the section 13 vests exclusive power in the authority to prescribe tariff. Thus, AERA can exercise power under section 13 to prescribe tariff independently until and unless the policy is formulated by the Government. In view of the expression contained in section 42(2) and when the legislative intent is very clear, it is not open to contend on behalf of the Central Government that the Central Government cannot prescribe nature of tariff applicable to an Airport; that interference by the Central Government is not called for; that Section 42(2) does not extend to determine the tariff

58. Having regard to the fact that representation submitted by the petitioner was entertained and processed, it is but imperative that the competent authority should take a decision and communicate the decision to the petitioners after duly considering all aspects placed before the Central Government by the petitioners. To that extent the grievance of the Petitioner is valid. In the facts of this case, it is imperative to direct the Central Government to pass appropriate tariff applicable to the petitioner Airport, as expeditiously as possible, at any rate within eight (8) weeks from the date of receipt of copy of this order."

3.5- In pursuance of order dated 10.06.2014 of the Andhra Pradesh High Court and issues raised by HIAL, the administrative Ministry obtained the opinion of my colleague the then Ld. Attorney General. The following queries were referred by the querist to the then Ld. Attorney General, Shri Mukul Rohatgi:-

- i) Whether it is mandatory for GOI to make a policy as per observations in the judgment?
- ii) In the event of Government making a policy, would it be legally tenable to apply such a Policy where a legally enforceable agreement has been signed and is in force? Can such a policy have retrospective effect?
- iii) Section 42(2) of the Act provides for issuance of 'Policy' direction to AERA by Central Government under Section 42(2) of Act to AERA on a case to case basis?
- iv) Which is the applicable till as per Clause 10.2 and 10.3 read with schedule 6 of Concession Agreement for determination of tariff for the Regulated Charges?
- v) Whether the Concession Agreement permits to use the revenue from non- aeronautical activities or services including the revenues from activities of cargo, ground handling or fuelling services and/or non-airport activities, to cross subsidise the charges for aeronautical services?

- vi) *Whether return on equity between 18.5% to 20.5% as suggested by SBI Capital Markets, can be applied for airport sector as a part of tariff policy?*
- vii) *Whether land earmarked for non-airport activities should be kept outside the purview of AERA?*

3.6- The then Ld. Attorney General, Shri Mukul Rohatgi while referring to provisions of AERA Act, 2008, CA of HIAL as well as that of other Airports and directions of the High Court had broadly observed that section 42(2) of the AERA Act empowers the Central Government to issue directions on matters referred to in Section 42 (1) of the Act only. Ld. Former Attorney General further observed that in the instant case Concession Agreement was of 2004 much before the AERA Act, 2008 came into force and it provided for the changes to be determined in accordance with the ICAO policies and the ICAO policy leaving the matter to the Central Government to decide the extent to which one revenue stream can offset the costs of the other. He was further of the opinion that the Act does not say that the CA shall be ignored, instead in his opinion Section 13(1)(a)(vi) of the Act mandated that provisions of the CA will be kept in view while determining tariff and the Ministry should take a holistic view keeping in view provisions of CA and the prevailing scenario at different Airports and take a final call. The specific opinion of the then attorney general for india is quoted hereinbelow for ready reference:-

“Answer to Q. (i)- It is imperative for the Ministry to make Policy in relation to cross- subsidy from Non-Aeronautical Revenue to offset Aeronautical Charges. In any case, representation of HIAL has to be disposed of by GOI in terms of the Judgment of the A.P. High Court. The disposal of the representation will necessarily mean that the GOI must decide as to whether the cross-subsidies should be in full or in part, as is in the case of Delhi and Mumbai Airports. This would amount to a policy for HIAL, atleast.

Answer to Q. (ii)- The CA between HIAL and the Government is still in force. The CA provided that the GOI can decide on the quantum of cross-subsidy and should generally follow ICAO policies. The Government did not decide. AERA has decided on 100% cross-subsidies. If the GOI decides the representation and the quantum of cross-subsidy, the same can be applied in the case of HIAL.

Answer to Q. (Hi)- Policy directions are usually for the industry, but it can be for a specific case also. In any event, as per the directive of the A.P. High Court a policy has to be made atleast for HIAL which will result in disposal of its representation.

Answer to Q (iv)- I have already answered in the body of the opinion that if the view taken is 'cross

subsidy in part, the same will be called a "**Hybrid/Shared Till**". If the cross-subsidization is affected in full, as directed by AERA, the same will be called "**Single Till**". The Central Government through MOCA has to take this call based on varied of factors including prevalent practice in other airports, as already stated hereinabove.

Answer to Q (v)- The CA has two relevant clauses in this behalf. 10.2 deals with "**Airport Charges**". 10.2.1 deals with those specified in schedule-6 which are also termed as "**Regulated Charges**". Cargo and ground handling services are not to be found in Schedul-6. They are therefore, not Regulated Charges. Clause 10.3 deals with "**Other Charges**". HIAL have a right to determine charges for those facilities which are not covered in "**Regulated Charges**". Hence, HIAL can charge whatever it desired without any regulation in that behalf. However, under the CA, they will be deemed to be non-regulated services. But it will be necessary to include them under Non-Aeronautical Services. The position under the AERA Act is, however, to the contrary.

Answer to Q (vi)- I am not in position to answer.

Answer to Q (vii)- Logically, non-airport activities should be outside the purview of AERA since AERA is related to only regulation of airports and what is outside the precincts should not be in the jurisdiction of AERA. The preamble of the Act and its provisions show that only airports are within the sweep of the Act."

3.7- I have been informed that in light of the directions of the Hon'ble High Court and the opinion of the then Attorney General, Querist approved "30% Shared Till" in respect of RGIA Hyderabad, and vide letter dated 11th June, 2015, directions were issued to AERA under section 42(2) of AERA Act for adopting "30% Shared Till" mechanism in respect of RGIA, Hyderabad.

3.8- Thereafter, AERA, vide letter dated 31.07.2016 submitted following comments in respect of the treatment of CGF:

"The airport operator and the Ld. Attorney General have approached the issue of classification of these services from the fact the charges pertaining to these services do not find mention in the list of Regulated Charges. The Authority has, however, treated these services as aeronautical services based on the following grounds:

- In Schedule 3, Part 1 of the Concession Agreement, the services are listed as airside/Airport facilities. Hence, these are airports activities and need to be regulated.*

4. Before opining on the queries raised, it is necessary to discuss the relevant clauses of the Concession Agreement, which was entered into between GoI and HIAL on 20.12.2004, as well as the law on the subject. The clauses of the Concession Agreement, which are relevant for the purpose of the present opinion are quoted hereinbelow for ready reference:-

“1.1 Definitions – In this Agreement, except to the extent that the context otherwise requires:

“Airport Activities” means the provision, at or in relation to the Airport, of the activities set out at Schedule 3, Part-1 as amended from time to time, pursuant to ICAO guidelines, provided that any activities that are not materially similar to those contemplated in Schedule 3, Part-1 shall require the mutual agreement of the Parties.

“Airport Charges” means:

(i) Amounts charged or imposed by HIAL in respect of the provision or use of the facilities and services which are included within Airport Activities;

(ii) Amounts charged or imposed by HIAL on or in respect of passenger and cargo movement or aircraft traffic into, on, at or from the Airport; and

(iii) Any other amounts deemed by this Agreement to be Airport Charges and further including any amounts to be collected by HIAL on behalf of GoI, GoAP or AAI.

“Applicable Law” means all laws, brought into force and effect by GoI or the State governments including rules, regulations and notifications made thereunder and judgments, decrees, injunctions, writs and orders of any court of record, as may be in force and effect during the subsistence of this Agreement;”

“ICAO” means the International Civil Aviation Organisation formed by the Chicago Convention or any successor thereof.

“Independent Regulatory Authority” or **“IRA”** means the Airports Economic Regulatory or any other regulatory authority set up to regulate any aspect of Airport Activities set up (i) by way of an executive order provided the functioning of the IRA is not within the control of GoI, or (ii) by an Act of Parliament or an ordinance or any Rules made thereunder.

“Non-Airport Activities” means the provision, at or in relation to the Airport, of the services set out at Schedule 3, Part-2.

“Regulated Charges” shall be as defined in Article 10.2.1.

“User development Fee” means a fee collected, as per Rules laid down by GoI, from the embarking passengers for the provision of passenger amenities, services and

facilities and will be used for the development, management, maintenance, operation and expansion of facilities at the Airport directly or as a part of the cost of tickets in accordance with Article 10.2.”

“10. Charges

10.1 Parties having right to impose charges – Subject to Applicable law, no Person (other than HIAL, any Service Provider Right Holder granted a relevant Service Provider Right or the AAI) may impose any charge or fee (a) in respect of the provision at the Airport of any facilities and/or services which are included within Airport activities or (b) in respect of the movement or passenger, or vehicular traffic on the Airport or the Site.

10.2 Airport Charges –

10.2.1 The Airport Charges specified in Schedule 6 (“Regulated Charges”) shall be consistent with ICAO Policies.

10.2.2 The Regulated Charges set out in Schedule 6 shall be the indicative charges at the Airport. Prior to Airport Opening HIAL shall seek approval from the Ministry of Civil Aviation for the Regulated Charges, which shall be based on the final audited Project cost. The Ministry of Civil Aviation shall, subject to the proposed Regulated Charges being in compliance with the principles set out in Article 10.2.1, grant its approval thereto within a period of forty-five (45) days of the date of the application being submitted by HIAL. Within 120 days after the Airport Opening Date, HIAL shall submit the final audited Project cost to the Ministry of Civil Aviation.

10.2.3 If at any time prior to the date the IRA has the power to approve the Regulated Charges HIAL wishes to amend such charges it shall seek consent from the Ministry of Civil Aviation for such amendments. The Ministry of Civil Aviation shall, subject to the proposed charges being in compliance with the principles set out in Article 10.2.1, grants its approval of such amendments within a period of forty-five (45) days of the date of the application being submitted by HIAL.

10.2.4 From the date the IRA has the power to approve the Regulated Charges, HIAL shall be required to obtain approval thereof from the IRA. In this regard, HIAL shall submit to the IRA, in accordance with any regulations framed by the IRA, details of the Regulated Charges proposed to be imposed for the next succeeding relevant period together with such information as the IRA may require for review. Unless otherwise agreed in writing between the Parties such approved Regulated Charges shall comply with the principles referred to in Article 10.2.1 until the earlier of (i) the date that outstanding Debt in respect of the Initial Phase has been rapid and (ii) fifteen (15) years from Airport Opening Date.

10.3 Other Charges – HIAL and/or Service Provider Right Holders shall be free without any restriction to determine the charges to be imposed in respect of the facilities and services provided at the Airport or on the Site, other than the facilities and services in respect of which Regulated Charges are levied.”

“15.5 Change in Law – If as a result of Change in law, HIAL suffers an increase in costs or reduction in net after tax return or other financial burden, loss, liability or damage in connection with its development or operation of the Airport, the aggregate financial effect of which exceeds Rupees ten million (10,000,000) in any financial year, HIAL may notify GoI and propose amendments to this Agreement so as to put HIAL in the same financial position as it would have occupied had there been no such Change in Law resulting in such cost increase, reduction in return or other financial burden, loss, liability or damage as aforesaid. Upon notification by HIAL as aforesaid, the Parties shall meet as soon as reasonably practicable but no later than 30 (thirty) days following notification from HIAL and either agree on amendments to this Agreement or on alternative arrangements to implement the foregoing.

Provided that if no agreement is reached as aforesaid by the Parties within ninety (90) days of the meeting pursuant to this Article, HIAL may by notice in writing require GoI to pay an amount that would put HIAL in the same financial position it would have occupied had there been no such Change in Law resulting in such cost increase, reduction in return or other financial burden, loss, liability or damage as aforesaid. Such notice shall be accompanied by such supporting documents and evidences by HIAL to GoI to evaluate such claim. GoI shall make payment of such compensation within 15 (fifteen) days of receiving such notice and evidences. If GoI shall dispute the quantum of such compensation claim of HIAL, the same shall be finally settled in accordance with the Dispute Resolution mechanism contained herein.”

Schedule 3 : Part – 1 – Airport Activities

Airport Activities include the following services, facilities and equipment:

Airside facility

- Ground handling services
- Cargo handling and cargo terminal operations, custodial services
- Aircraft fuelling services

“Schedule 3 : Part – 2 – Non-airport Activities

Landside Non-Airport Activities include the following services, facilities and equipment:

- Offices for freight consolidators/forwarders or agents at cargo complex. Offices for airlines
- Bus terminal for local and regional buses, Airport shuttle transport services (hotels, city centre, etc.)
- Business parks
- Airport hotels, restaurants, conference venues, meeting facilities, business centres, trade fairs, real

estate, theme parks, amusement arcades, golf courses, sports facilities, banks and exchanges and shopping malls.

-
-
- Any revenue generating activity related to development of the Site or of the Airport in relation to Non-Airport Activities”

“Schedule 6: Regulated Charges

Pursuant to and without prejudice to the principles set out in Article 10.2 of this Agreement, HIAL shall be entitled to levy and recover from airline operators, passengers and other users and in respect of both domestic and international aircraft and passenger movements, at rates consistent with ICAO Policies, the following Regulated Charges: . -

- i. Landing, Housing and Parking charges (domestic and international)
- ii. Passenger Service Fee (domestic and international)....
- iii. User Development Fee (UDF) (domestic and international)....”

5. Thus from a bare perusal of the aforesaid quoted clauses it becomes clear that airport charges is referred in Clause 10.2. Clause 10.2.1 mandates that airport charges specified in Schedule VI (Regulated Charges) shall be consistent with ICAO policies. Clause 10.2.4 stipulates that from the date the Independent Regulatory Authority (AERA) has the power to approve the regulated charges, Hyderabad Airport shall be required to obtain the approval thereof. Schedule VI contains the list of regulated services which are subject to regulation. There are only 3 such services which are regulated i.e.

- i) Landing, housing and parking charges
- ii) Passenger services; and
- iii) User Development Fee.

6. By applying the rule literal interpretation for interpreting the afore-referred clauses, which is the thumb rule for interpreting any provision of the contract, it can be seen Regulated charges does not include Cargo or Ground handling or Fuel charges (CGF). Hence, CGF is not regulated as per the concession granted under the Concession Agreement by the central government to the airport operator.

7. A logical corollary to the same would be that under Clause 10.2 more particularly, Clause 10.2.1 and Clause 10.2.4 HIAL would not be obligated to seek approval from the MOCA or the AERA in respect of the charges for CGF, leaving it within the domain of HIAL to determine the tariff of CGF as the same would not be subjected to regulation by AERA. Under the Concession

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Agreement (clause 3.3) 4% of gross revenue is to be shared with the Government. Gross revenue would include both regulated and non-regulated charges. In other words if the regulated or non-regulated charges are on the higher side, the same will increase the revenue sharing of the Government.

8. This takes us to the question as to what would be the implication AERA Act on the above contractual provisions. In the year 2008, the Parliament enacted the Airport Economic Regulatory Authority Act, 2008. Section 2 contains the definition of aeronautical services which includes CGF. Section 13 (1)(a) gives the power to the authority to determine the tariff for the aeronautical services which would include CGF. The question, which therefore arises, is that whether in view of Section 13(a) enacted under the AERA, the AERA authority gets the power to regulate the tariff of CGF which is otherwise not part of the Regulated Charges under the Concession Agreement. To find the answer to this issue it would be relevant to first advert to the provisions of AERA which are relevant for the purpose of the present opinion. The same are quoted hereinbelow:-

"1. Short title, commencement and application -

(1)...

(2)...

(3) It applies to -

a) all airports where air transport services are operated or are intended to be operated, other than airports and airfields belonging to or subject to the control of the Armed Forces or paramilitary Forces of the Union;

b) all private airports and leased airports:

c) all civil enclaves;

d) all major airports."

"2 (a) "Aeronautical Service" means any service provided -

(i) for navigation, surveillance and supportive communication thereto for air traffic management;

(ii) for the landing, housing or parking of an aircraft or any other ground facility offered in connection with aircraft operations at an airport;

(iii) for ground safety services at an airport;

(iv) for ground handling services relating to aircraft, passengers and cargo at an airport;

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(v) for the cargo facility at an aircraft;

(vi) for supplying fuel to the aircraft at an airport; and

(vii) for a stake-holder at an airport, for which the charges, in the opinion of the Central Government for the reasons to be recorded in writing, may be determined by the Authority.”

[Emphasis Supplied]

“2(c). "Airport user" means any person availing of passenger or cargo facilities at an airport;”

“2(e). "Authority" means the Airports Economic Regulatory Authority established under sub-section (1) of Section 3.”

2(p). words and expressions used but not defined in this Act and defined in the Airports Authority of India Act, 1994 (55 of 1994) shall have the same meanings respectively assigned to them in that Act.

9. Section 13 which gives the power to the authority to determine the tariff for the aeronautical services including CGF is quoted hereinbelow:-

13. Functions of Authority -

(1) The Authority shall perform the following functions in respect of major airports, namely —

(a) to determine the tariff for the Aeronautical Services taking into consideration -

(i) the capital expenditure incurred and timely investment in improvement of airport facilities;

(ii) the service provided, its quality and other relevant factors;

(iii) the cost for improving efficiency;

(iv) economic and viable operation of major airports;

(v) revenue received from services other than the aeronautical services;

(vi) the concession offered by the Central Government in any agreement or memorandum of understanding or otherwise:

(vii) any other factor which may be relevant for the purposes of this Act.

(viii) Provided that different tariff structures may be determined for different airports having regard to all or any of the above considerations specified at sub-clauses (i) to (vii).

(b) ...

(c) ...

(d) ...

(e) ...

- (f) to perform such other functions relating to tariff as may be entrusted to it by the Central Government or as may be necessary to carry out the provisions of this Act;
- (2) The Authority shall determine the tariff once in five years and may if so considered appropriate and in public interest, amend, from time to time during the said period office years, the tariff so determined;
- (3) While discharging its functions under sub-section (1) the Authority shall not act against the interest of the sovereignty and integrity of India, the security of the State, friendly relations with foreign States, public order, decency or morality;
- (4) The Authority shall ensure transparency while exercising its powers and discharging its functions, inter alia, -
- (a) by holding due consultations with all stakeholders with the airport;
 - (b) by allowing all stake-holders to make their submissions to the authority; and
 - (c) by making all decisions of the Authority fully documented and explained.”

[Emphasis Supplied]

10. Therefore to answer the question question, as to whether Section 13(a) of AERA, confers the power on the AERA authority to regulate the tariff of CGF which is otherwise not part of the Regulated Charges under the Concession Agreement, what would be required to be interpreted is the true and correct import of Section 13(1)(a)(vi) of the Act which provides that while determining the tariff, AERA will take into consideration the concession offered by the Central Government.

11. The interpretation of Section 13(1)(a)(vi) of AERA however, remains no more *res-integra*. The said section, in a similar fact situation has already been interpreted by the TDSAT which is the competent tribunal to adjudicate issues and interpret the provision of AERA.

12. The TDSAT vide its judgment dated 24.04.2018, rendered in the case of *DIAL vs AERA – AERA Appeal No 10 of 2012* has held that in view of Section 13(1)(a)(vi) the existing Agreements are protected and therefore, the CNF services will be un-regulated despite the enactment of AERA Act. The said case pertained to the case of Delhi Airport, wherein, OMDA (concession agreement for Delhi airport) also provided that Cargo and Ground handling services were non-aeronautical / non-regulated services and Fuel farm is aeronautical service/regulated service. AERA has not filed

any appeal against the TDSAT judgment. The relevant part of the Judgement reads as under:-

“31..... Whatever concessions have been offered under these two agreements, they deserve consideration by AERA in a judicious, fair and transparent manner. It does not really matter whether the power of such consideration flows from sub-clause (vi) or sub-clause (vii) of Section 13(1)(a) of the Act. In exercise of this power, AERA is required to respect rights / concessions flowing from lawful agreements / instruments / directives of Central Government on policy matters.

.....
36. Since special emphasis has been laid on sub-clause (vi) of clause (a) of Section 13 (1), it would be proper to consider the import and effect of this provision which requires taking into consideration, the concessions offered by the Central Government in any agreement etc. Although this provision apparently stands on the same footing as other provisions in various sub-clauses but in the light of law and judgments which shall be noticed hereinafter, it would be appropriate to consider the submission advanced on behalf of DIAL by going deeper into the role of the Central Government under the Policy as well as the Act. For this purpose, all the relevant provisions in the Act need to be kept in mind. The fact that Central Government has laid down the policy to attract private and public participation and investment to have world class airport facilities at the major airports is not in dispute. Unless there be anything contrary in the Act, the policy needs to be viewed as a promise so that the ultimate bidders and investors may feel secure and confident of a fair treatment after they have agreed to make or made heavy investments. The concession offered through any Agreement or Memorandum of Understanding or even otherwise needs to be viewed accordingly. The role of Central Government under the Act in the matter of functions of the Authority is indeed limited but Section 42 vests power in the Central Government to issue to the Authority, from time to time, such directions as it may think necessary in the interest of factors enumerated i.e. sovereignty and integrity of India, the security of state, friendly relations with foreign states, public order, decency or morality. Additionally, it is also provided that the Authority shall, in exercise of its powers and functions, be bound by such directions on questions of policy as the Central Government may give in writing to it from time to time. Reading the sub-clause (vi) in Section 13 (1)(a) together with Section 42, it is apparent that the Authority is ultimately to be bound by directions on Policy as may be given by the Central Government in the manner indicated in Section 42. Drawing a parallel, it is also apparent that the concession offered by the Central Government, specially those relating to policy matters must receive due respect by the Authority unless it comes to the conclusion that what is being claimed as a concession is not provided as a concession at all or that the direction does not relate to any question of policy. However, if the Central Governments so inclined, it can decide whether a direction is one of policy or not and then as per Section 42(3) such

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decision shall be final, at least to bind the Authority in exercise of its powers or functions under the Act. In view of such discussion, the provision in sub-clause (vi) does require a relatively more serious and careful consideration by the Authority. As indicated above, the claim based on this clause and on concessions offered by the Central Government can be disregarded only on limited counts. Since a contractual right / claim has the backing of law, it deserves clear respect. But such claim is bound to be ignored in a situation where the Authority finds that the claimed right / concession is in teeth of or contrary to any express provision in the Act or against what flows as a mandate from the provisions in the Act by necessary implications. Such finding to be lawful must be based on another finding that the conflict is irreconcilable.

.....
84. Mr. Kapur also referred to some relevant provisions of SSA and OMDA. He has filed written notes on retrospectivity citing various judgements such as Delta Engineers Vs. State of Goa – (2009) 12 SCC 110 and Securities Exchange Board of India Vs. Alliance Finstock & Ors. – (2015) 16 SCC 731. These judgments follow the earlier precedents and do not warrant a different view on the issue of alleged impermissible retrospectivity of the Tariff Order. In paragraph 19 of the latter judgment, it was rightly highlighted that “the rationale is not permitting retrospective operation of laws is only to ensure that subjects are not adversely affected by creation of legal liabilities and obligations for a period already bygone.” We have already held that the statutory provisions as well as the agreements required re-fixation of tariff and permitted the regulatory period to start from 01.04.2009. The discussions made earlier on this issue are reiterated. On the basis of various factors enumerated in Section 13(1)(a) and certain observations of a Parliamentary Standing Committee, it was argued that AERA should have opted for single TILL in place of shared TILL and ought to have treated the entire revenue whether received from Aero or Non-Aero services as one for determination of tariff. The argument is that provisions to the contrary in the SSA and OMDA deserved no respect in view of observations of the Parliamentary Standing Committee and Section 13(1)(a)(v) which spells out – “revenue received from services other than the Aeronautical Services” – to be one of the factors requiring consideration in the task of tariff formulation. On the other hand, it has been argued at length by Mr. Venugopal and also by others supporting the impugned tariff that unless there be explicit provision in a statute for taking away a vested contractual right or at least there be such provisions which necessarily require such rights to be voided, the vested contractual rights cannot be ignored. Hence, it has been submitted in reply that the adoption of shared TILL by AERA is fully in accordance with law and permitted by clause (vi) of Section 13(1)(a). It was submitted that for Delhi International Airport only 30% of Non-Aero revenue could be taken into consideration as per the formula in the contract and the said view has rightly been followed because it creates a harmony between the contract and the statute. We find ourselves in agreement with this

view. Hence, as per provisions in OMDA and SSA, particularly the formulae for Target Revenue etc., Cargo and Ground Handling charges have to be treated as Non-Aero Revenue. There is enough flexibility in the definition clause of the Act contained in Section 2 as noted earlier in paragraph 8, to permit this view in the light of context and the need to honour the rights / concessions under OMDA and SSA.

119. Some of the salient observation and directions on material issues are summarized hereinbelow for the purpose of easy reference so that these directions and observations are carried out and/or kept in mind by AERA at the time of tariff formulation for aeronautical services for next control period that may be falling for consideration:-

- (i) In exercise of powers under Section 13 of the Act, AERA is required to respect rights / concessions etc. (See Para 31).
- (ii) Contractual rights can be voided only on the basis of explicit statutory provisions or implications from statutory provisions permitting no other option (See Paras 34 and 36).
- (iii) Even when the Airport Operator engages in providing an Aeronautical Service through its servants or agents, the service must be deemed to be one provided by the Airport operator. The colour of revenue from Aeronautical Service cannot get changed to that of revenue from Non-Aeronautical Service, by an act of delegation or leasing out by the Concessionaire. (See paras 57 and 59)
- (iv) Revenue from Cargo and Ground Handling charges are required to be treated as non-Aero revenue (See para 84).
- (v) Levy and determination of User Development Fee (UDF) is lawful but its use and appropriation must also be transparent lawful and accounted for in the future exercise for tariff determination (See para 96)
- (vi) RSD of Rs.1471 crores cannot be a zero cost debt. Its cost needs to be ascertained and made available to DIAL through appropriate fiscal exercise at the time of next tariff redetermination (See Para 106).
- (vii) Although rate of 16% as return on Equity not interfered with, AERA may redo the exercise through a scientific and objective approach, independently of any observations in the Third Control Period. (See Para 113)."

13. A bare perusal of the aforesaid judgment shows that what has been held by the TDSA is that despite there being an express provision in AERA Act, due consideration is to be given to the concession offered by the Central Government in any agreement,

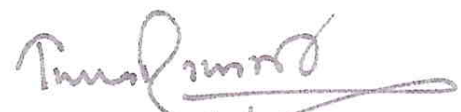
MoU or otherwise. In absence thereof, the vested rights created in favour of the concessionaire prior to enactment of AERA Act would become otiose. The provisions of Section 13 of the Act, therefore, has been purposefully interpreted by the TDSAT keeping in view the doctrine of 'business common sense'.

Furthermore, the issue as to whether Cargo and Ground Handling charges are required to be treated as 'non-Aero revenue' is already decided by TDSAT in similar circumstances under a similarly worded agreement, whereby TDSAT has held that the said revenue will have to be treated as non-aero revenue and hence unregulated. Furthermore, it is also necessary to note that in the Delhi agreement, which was the subject matter of the judgment quoted aforesaid, fuel was not part of non-aero revenue, whereas, in the Hyderabad Concession Agreement fuel is treated at par with cargo and ground handling. Accordingly, by necessary implication of the reasoning recorded by the TDSAT, fuel charges under the present CA also has to be treated as Non-aero revenue. Also the aforesaid judgment has not been challenged by AERA and has been accepted it. Therefore, the reasoning recorded in the said judgment has to be followed by the ministry/authority for all other similarly worded agreements.

Accordingly, I am of the opinion that since the question posed before me by the ministry has already decided by a competent court ie TDSAT, vide its judgment dated 24.04.2018, rendered in the case of *DIAL vs AERA - AERA Appeal No 10 of 2012*, therefore, the difference of opinion between my two former colleagues ie Shri Mukul Rohatgi [former Attorney General for India] and Shri Ranjit Kumar [former Solicitor General of India] interpreting section 13 of the Act differently, loses significance, inasmuch as, after the judgment referred above, and in absence of any challenge to it by the Ministry or the authority, what would be binding on the Ministry/authority would be the reasoning/conclusions recorded by the TDSAT while interpreting section 13 of the Act. As such by following the reasoning's and conclusions recorded by the TDSAT in the aforesaid judgment, I am of the opinion that for the purpose of present CA also, activities relating to cargo, ground handling and fuelling services (CGF), mentioned in Schedule-3 Part 1 of Concession Agreement of Rajiv Gandhi International (RGI) Airport, Hyderabad will have to be treated as non-aeronautical/non-regulated activities for the purpose of tariff determination by Airport Economic Regulatory Authority (AERA).

348990/KS/19
26/12/19

I opine accordingly.



[TUSHAR MEHTA]
Solicitor General of India
24th December, 2019

Law Secretary

16/12

E.O.No.348990/LS/19
Ministry of Law & Justice
Department of Legal Affairs

We are in receipt of an opinion of Ld. Solicitor General of India (SGI) on the following issues:

- i) Whether the activities relating to cargo, ground handling and fuelling services (CGF) mentioned in Schedule 3, Part-1 of Concession Agreement of Rajiv Gandhi International (RGI) Airport, Hyderabad may be treated as non-aeronautical activities for the purpose of tariff determination by Airport Economic Regulatory Authority (AERA)?
- ii) Generally.

2. In this regard, it is important to mention that the above issue had been prepared by the then Law Secretary for the consideration of Ld. Attorney General of India (AGI). Later on, the Ld. AGI had marked the same to Ld. SGI.

3. The matter was examined by Ld. SGI vide its Note dated 24.12.2019 on the above issue and has, *inter-alia*, opined as under:

"Accordingly, I am of the opinion that since the question posed before me by the Ministry has already decided by a competent court i.e. TDSAT, vide its judgment dated 24.04.2018, rendered in the case of DIAL vs AERA —AERA Appeal No.10 of 2012, thereof, the difference of opinion between my two former colleagues i.e. Shri Mukul Rohatgi [former Attorney General for India] and Shri Ranjit Kumar (former Solicitor General of India] interpreting section 13 of the Act differently, loses significance, inasmuch as, after the judgment referred above, and in absence of any challenge to it by the Ministry or the authority, what would be binding on the Ministry/authority would be the reasoning/conclusions recorded by the TDSAT while interpreting section 13 of the Act. As such by following the reasoning's and conclusions recorded by the TDSAT in the aforesaid judgment, I am of the opinion that for the purpose of present CA also, activities relating to cargo, ground handling and fuelling services (CGF), mentioned in Schedule 3 Part 1 of Concession Agreement of Rajiv Gandhi International (RGI) Airport, Hyderabad will have to be treated as non-aeronautical /non-regulated activities for the purpose of tariff determination by Airport Economic Regulatory Authority (AERA).

I opine accordingly."


17/12

:18:

4. The details of the opinion of the Ld. SGI may please be referred to at PP.1-16/N. We have perused the opinion of Ld. SGI, it appears that the Ld. SGI has examined all the issues referred to him and opined accordingly.


5. The opinion of Ld. SGI is submitted for kind perusal and approval of Hon'ble Minister of Law & Justice.

348990

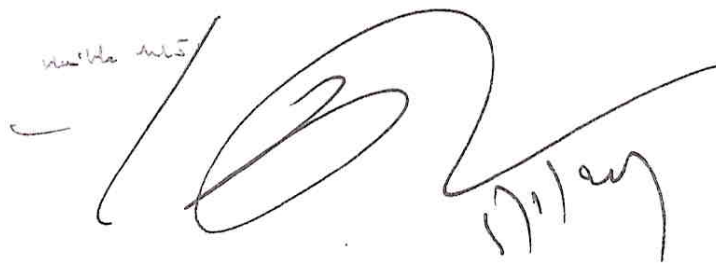

(Neeraj Rawat)
ALA
02.01.2020

10/1/20

JS&LA(Dr. Anju Rathi Rana)


03/01/2020

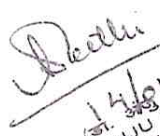
Law Secretary 
6/1/20


17/1/20

Law Secretary 
13/1/20

JS&LA (Ld. SGI)

MOCA


14/01/2020
(Dr. ANJU RATHI RANA)
Joint Secretary & Legal Adviser
Ministry of Law & Justice
New Delhi

Adv A
Through A.C

348990/LS/2019
19/1/20

ANNEXURE - RIV

- 150 -

F.No.AV.24011/001/2011-AD
Government of India
Ministry of Civil Aviation
AD Section

Safdarjung Airport, New Delhi
 Dated: 30.05.2011

To,

Shri Yashwant Bhawe,
Chairman,
Airport Economic Regulatory Authority,
Administrative Block, AERA Building,
Safdarjung Airport, New Delhi.

Subject:- OMDA as the 'concession offered' by the Central Government.

Sir,

I am directed to say that M/s Delhi International Airport Pvt. Ltd. (DIAL) and M/s Mumbai International Airport Pvt Ltd. (MIAL) each had made representation to Ministry of Civil Aviation, inter-alia, stating that Airports Economic Regulatory Authority (AERA) vide its Order No.10/2010-11 dated 10.12.2010 relating to approval of X-Ray Charges for domestic cargo levied at IGI Airport, New Delhi and Order No.13/2010-11 dated 12.01.2011 relating to Regulatory Philosophy and approach in Economic Regulation of Airport Operators, has concluded that the Operation, Management & Development Agreement (OMDA) signed between the JVCs and Airports Authority of India (AAI) was not the 'concession offered' by the Central Government.

2. In the above backdrop, the issue regarding status of the transaction documents for restructuring and modernization of Delhi and Mumbai airports has been examined in this Ministry in consultation with Law Ministry and it has been observed that:

- (i) The Union Cabinet had accorded 'in-principle' approval for restructuring and modernization of Delhi And Mumbai airports by adopting Joint Venture Route and by formation of two separate companies between Airports Authority of India and the selected Joint Venture Partner;
- (ii) An Empowered Group of Ministers (EGoM) was constituted to take decisions on various issues connected with the restructuring exercise and to decide the detailed modalities including the design parameters, bid evaluation criteria etc;
- (iii) EGoM in its meeting, held on 15.02.2005, approved the key principles of the Transaction Documents i.e Operation, Management and Development Agreement (OMDA), State Support Agreement (SSA), Lease Deed, State

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Government Support Agreement (SGSA), Shareholders Agreement (SHA), CNS/ATM Agreement, etc., based on which the JV partners were selected.

(iv) OMDA can be considered as the principal document, because the right to Operate, Maintain, Develop, Construct, Upgrade, Modernize, Finance and Manage the airport has been given to the JVCs only under the provisions of clause 2.1 of OMDA. Hence, without OMDA there is no utility of other agreements. Further, in all other agreements cross referencing has been done to the provisions of OMDA for interpretation of the provisions of other transaction documents. Also, the definition of the Project Agreements has only been inserted in Clause 1.1 of OMDA and this includes all other Transaction Documents.

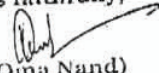
3. Further, this Ministry had sought the legal advice from the Ministry of Law & Justice on the issue. Ministry of Law & Justice has, inter-alia has opined as under:

Since admittedly the transaction documents like OMDA and SSA have been executed between GoI, AAI and DIAL & MIAL under Section 12A of the AAI Act read with sub section (4) of Section 12A and the functions of AAI have been assigned to DIAL and MIAL for management of the respective Airports, non-consideration of the same may not be in accordance with the agreed terms and conditions of the agreements executed. Therefore the concessions, if any, offered under such agreements either by the Central Government or through AAI appear to be the 'concessions' under the domain of section 13(1)(vi) of the AERA Act. Hence, AERA being an instrumentality of the State cannot unilaterally ignore the said binding agreements on the ground that they have been formally signed by the AAI. In view of above, it may be to advisable to consider and not to ignore these binding principal documents executed for the purpose of restructuring of the Airports at Delhi and Mumbai.

4. In view of above, it has been observed that all the Transaction Documents i.e. OMDA, SSA, SGSA, Lease Deed, SHA, CNS/ATM Agreement, entered between the concerned Government/Organizations and the JVCs for restructuring and modernization of Delhi and Mumbai airports have been approved by the Empowered Group of Ministers (EGoM) i.e. the Central Government and cannot be considered in isolation just because they have been formally signed by Airports Authority of India or any other organization. Thus, the concession offered by OMDA and any of the other Agreements listed under Clause 1.1 of OMDA, need to be considered as the 'concession offered' by the Central Government in terms of Section 13(1)(a)(vi) of the AERA Act, 2008.

5. This issues with the approval of Minister for Civil Aviation.

Yours faithfully,


(Oina Nand)

Under Secretary to the Govt. of India
Tel.: 24640214

GOVERNMENT OF ANDHRA PRADESH
INFRASTRUCTURE AND INVESTMENT (AIRPORTS) DEPARTMENT

Letter No.273/Airports(A1)/2013,

Date:16-04-2013

From
The Principal Secretary to Government,
Infrastructure & Investment Department,
A.P, Secretariat.
Hyderabad.

To
The Chief Executive Officer,
Rajiv Gandhi Hyderabad international Airport Limited,
Hyderabad. (w.e.)

Sir,

Sub: Economic Regulation of Service provided by Airport Operators –
Comments, Views on the Draft Guidelines – Copies of letters
furnished – Reg.

- Ref: 1. Govt. Letter No.245/Airports/2011, Dated: 01-03-2011
2. Govt. Letter No.245/Airports/2011, Dated: 03-03-2011
3. From the Authorized Person, RGHIAL, Letter No. Nil,
Dt.28-03-2013.

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With reference to your letter cited, I am to enclose herewith copies of the reference 1st and 2nd cited where in the information was furnished to Airports Economic Regulatory Authority of India, New Delhi on 01-03-2011 and 03-03-2011 on the views / comments of the State Government of Andhra Pradesh on "The Airports Economic Regulatory Authority of India (Terms and conditions for Determination of Tariff for Services provided by Airport Operators) Guidelines, 2011" as desired.

Yours faithfully,



for Principal Secretary to Government

(A)

**GOVERNMENT OF ANDHRA PRADESH
INFRASTRUCTURE & INVESTMENT DEPARTMENT**

-3-

Letter No.245/Airports/2011

Dated: 01 -03-2011

From
Sri Ajay Mishra, I.A.S.,
Principal Secretary to Government,
Infrastructure & Investment Department,
AP Secretariat,
Hyderabad.

To
The Secretary,
Airports Economic Regulatory
Authority of India,
AERA Building,
Administrative Complex,
Safderjung Airport,
New Delhi.

Sub:- Economic Regulation of Service Provided by Airport Operators –
Comments, Views on the Draft Guidelines - Reg.

Ref:- Your Letter D.O.No.AERA/2011/AO-G/2011, dt. 2-2-2011.

With reference to your letter cited (the views/ comments of the State Government of Andhra Pradesh on "The Airports Economic Regulatory Authority of India (Terms & Conditions for Determination of Tariff for Services Provided by Airport Operators) Guidelines, 2011") are detailed hereunder as desired in the reference cited.

As per Section 13(1)(a)(vi) of the AERA Act, 2008 the Authority shall determine the tariff for the Aeronautical Services taking in to consideration the concession offered by the Central Government in any Agreement or MOU or otherwise. In respect of GMRHIAL, the Concession Agreement was entered between the Hyderabad International Airport and Ministry of Civil Aviation, Government of India on 20.12.2004 for the development, construction, operation and maintenance of the Airport. As per the Article 10(2) of the Concession Agreement regulated charges for the airport activities are to be regulated and more specifically the charges as laid out in Schedule 6 of the Agreement. The regulated charges as defined in Schedule 6 of the Concession Agreement are:

- Landing, housing, parking charges (Domestic and International)
- Passengers service fee (Domestic & International)
- User development fee (Domestic and International)

(cont.2)

As regards tariff of non airport activities, Article 10(3) of the Concession Agreement gives the right to HIAL or other service providers to set tariff for non airport facilities and services. The Concession Agreement does not envisage cross subsidy of non-aeronautical revenues against the aeronautical revenues. This may be taken into consideration by the authority.

As per the Section 2 of the AERA Act, 2008 'aeronautical service' includes any service provided for ground handling services relating to aircraft, passengers and cargo at an airport; for the cargo facility at an airport for supplying fuel to the aircraft at an airport.

The proviso relating to cargo ground handling and fuel being part of regulated activities goes against Concession Agreement shall lead to lowering of return for the Govt. of AP as a shareholder.

As per Clause 2.3 b(i) of the State Support Agreement, dt.30.9.2003 entered between Govt. of AP and HIAL, it is necessary to maintain equity internal rate of return at 18.33%.

Further, as per the recital (C) of the Land Lease Agreement dt.30.9.2003 entered between Government Andhra Pradesh and Hyderabad International Airport Ltd., on 30.9.2003 the project is of prime importance to the State of Andhra Pradesh and the Govt. of A.P. as part of its policy, to encourage and provide internal development, tourism, passenger, Cargo movement and the general economic and social development of the State of Andhra Pradesh, has granted approval for the development of a Greenfield airport and the provision of financial support to assist the project.

As already mentioned as per recital 'C' of the Land Lease Agreement dt.30.9.2003, 5,500 acres of land was leased by the Govt. of Andhra Pradesh for the purpose of development of Greenfield international airport and also for the general economic and social development of the State of Andhra Pradesh. However, going by clause 7.5 read with 7.7 of Order No.13/2010-11 of AERA dt.12.1.2011 this purpose of the social and economic development of the State may not be achieved, as these clauses envisages reduction of RAB with market value of land provided to the operator.

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In view of the above the Govt. of Andhra Pradesh is of the view that the AERA may take into consideration the above views while finalizing the regulations. Further, the Govt. of Andhra Pradesh has provided interest free loan of Rs.315 crores and Advance Development Fund Grant of Rs.107 crores to incentivize the airport developer for development of the Greenfield airport and also the general economic and social development of Hyderabad.

Yours faithfully,

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for Principal Secretary to Government.

 4

**GOVERNMENT OF ANDHRA PRADESH
INFRASTRUCTURE & INVESTMENT DEPARTMENT**

Letter No.245/Airports/2011

Dated : 03.03.2011.

From
Sri Ajay Miswhra, I.A.S.,
Principal Secretary to Government,
Infrastructure & Investment Department,
A.P.Secretariat,
Hyderabad.

To
The Secretary,
Airports Economic Regulatory
Authority of India,
AERA Building,
Administrative Complex,
Safderjung Airport,
New Delhi.

Sub : Economic Regulation of Service Provided by Airport Operators –
Comments, views on the Draft Guidelines – Reg.

Ref : 1) Your D.O.Lr.No.AERA/2011/AO-G/2011, dt.2.2.2011.
2) Letter No.245/Airports/2001, dt.1.3.2011 from the Prl.Secy to Govt.,
Infrastructure & Investment Department, Govt. of A.P.

Please refer to this office letter 2nd cited, wherein the views on “The Airports Economic Regulatory Authority of India (Terms & Conditions for Determination of Tariff for Services Provided by Airport Operators) Guidelines, 2011” were furnished.

In continuation of the letter 2nd cited the following views / comments of the Government of Andhra Pradesh may also be taken into consideration while finalizing the regulations:

1. Clause 2.3 (b)(i) of State Support Agreement, pertaining to Equity IRR of 18.33% is only in reference to pro-rata adjustment of Interest Free Loan from Govt. of Andhra Pradesh and it is not envisaged that this operate as a cap on the project returns based on single till or otherwise. As explained in our said letter dated March 1, 2011 the concession agreement does not envisage cross subsidy of non-aeronautical revenues against the aeronautical revenues.
2. Setting up the airport in the Greenfield location of Shamshabad was with the intention of socio-economic development of the region and also overall development of tourism and industrial development of the State. Considering these objectives, the land of 5500 acres was leased to the GHIAL for development of airport as well as non-airport activities to suitably incentivize the airport operator without any reference to target equity IRR. Hence any adjustment proposed by AERA would not serve the purpose for which the land was leased out to GHIAL. This was also explained in detail vide last para on page-2 of this Government letter dt.1.3.2011.

Yours faithfully,


for PRINCIPAL SECRETARY TO GOVT.

Yashwant Bhave *M.P.A. (Harvard) I.A.S.*
Ex-Secretary to the Government Of India, Ministry of
Consumer Affairs, New Delhi
Ex-Chairperson, Airports Economic Regulatory Authority
of India (AERA), New Delhi
Cell: +91 77200 37738
E-mail: ysbhav@gmail.com
Dated July 8, 2017

Sub: Regarding matters relating to the Non-Aeronautical Revenue in respect of GHIAL, Hyderabad

1. Background:

1.1. **GMR Hyderabad International Airport Ltd. (GHIAL)**, (hereinafter Querist) has requested me to offer an opinion on matters of true import and meaning of certain provisions of the Concession Agreement (henceforth "CA") between GHAIL and the Government of India. GHIAL, was initially incorporated as Hyderabad International Airport Limited on December 17, 2002 and later changed its name to GMR Hyderabad International Airport Limited, effective November 29, 2005. The consortium of GMR Infrastructure Limited and Malaysia Airports Holding Berhad was chosen as a successful bidder pursuant to an international bidding process conducted by the erstwhile united State Government of Andhra Pradesh for designing, financing, constructing, and for operating & maintaining an international airport (Airport) and for developing Airport and Non-airport activities at Shamshabad, Hyderabad (hereinafter referred to as 'Project').

1.2. Consequent to the selection of above said consortium, the following Agreements were executed.

- A. Share Holders Agreement:
- B. Land Lease Agreement:
- C. State Support Agreement:
- D. Concession Agreement:

1.3. The Government of India (GoI) vide Concession Agreement dated **December 20, 2004** granted GHIAL the exclusive right to carry out the development, commissioning, operation, maintenance and management of the Airport. GHIAL had also been granted the right to carry out Airport and Non-airport activities and to carry on any activity or business related to or ancillary to the operating and maintenance of the Airport or any other commercial activity, with a further right to grant Service Provider Rights to any third party.

1.4. The concession granted by the GOI is for an initial term of 30 years from the date of Commercial Operations of the Airport i.e. from 23.03.2008 and can be extended for a further period of 30 years at the sole option of GHIAL.

1.5. Clause 2 of the CA defines the “Scope of the Project” as under:

The scope of the Project (the "Scope of the Project") shall mean:

2.1.1 the development and construction of the Airport on the Site in accordance with the provisions of this Agreement;

2.1.2 the operation and maintenance of the Airport and performance of the Airport Activities and Non-Airport Activities in accordance with the provisions of this Agreement; and

2.1.3 the performance and fulfilment of all other obligations of HIAL in accordance with the provisions of this Agreement.

1.6. Terms arising in the “Scope” are separately defined as will be apparent later (See Para 1.16 below for definition of Airport Activities and Non-Airport Activities). The issue in question being the subject matter of the present brief is the calculation of Non-Aeronautical Revenue in respect of GHIAL. In its brief for my opinion, the querist has extensively given the background and relevant clauses and for sake of brevity are not reproduced here except those required for understanding the logic of the interpretation and meaning leading to answering the following queries:

1.7. **Queries:** Specifically, Querist has raised the following issues (or queries)- Answered in Para 1.34 below:

- 1) Whether the expenses incurred for non-aeronautical activities, can be deducted from Non-Aeronautical Revenue before cross subsidisation of 30% Non-Aeronautical Revenue under Hybrid Till?
- 2) What revenue shall constitute the non-aeronautical revenue in the hands of GHIAL?
- 3) In view of the concession granted to GHIAL under the CA particularly under Articles 10.2, 10.3 read with Schedule 6, whether the cargo, fueling and ground handling services are treated as part of aeronautical or non-aeronautical.
- 4) Whether the revenue from non-airport activities is liable for cross subsidy?

1.8. To address these queries, it is necessary to have a proper understanding of the various documents referred to above and more particularly the CA along with communications from Ministry of Civil Aviation to GHIAL as well as communication to other private airports particularly Mumbai International Airport Ltd (MIAL) and Delhi

International Airport Ltd (DIAL) that are relevant and hence pari materia for our purpose. This is done in the following paragraphs.

Primacy of the provisions of the Concession Agreements:

1.9. An important element of understanding and interpretation of the various documents and especially the provisions of the Concession Agreement between GHIAL and the Central Government is the correspondence between the airport regulator (AERA) and the Central Government. Section 13 of the AERA Act gives the functions of the Authority. Sub section (a) of section 13 states one of the functions of AERA viz. to determine the tariff for the *aeronautical services* taking into consideration mentioned therein. One of the factors in sub clause (vi), is “*concession offered by the Central Government in any agreement or memorandum of understanding or otherwise;*”. AERA Act also defines the various aeronautical services in section 2(a) of the said Act. Of particular relevance are the services of “ground handling” [Sec 2(a) (iv)] and “cargo” [Sec 2(a) (v)] that are defined as “aeronautical services” by the AERA Act.

1.10. However, the Concession Agreements of both DIAL and MIAL list out, in Schedule 5, the “Aeronautical Services” and Schedule 6, the “Non-Aeronautical Services”. Cargo Handling, Cargo Terminals and Ground Handling Services are mentioned in Schedule 6, i.e. as Non-Aeronautical Services in OMDA. The issue that came up was whether to reckon cargo and ground handling services as “aeronautical Services” (as are defined as such in AERA Act 2008), or as “Non-Aeronautical Services” as defined in OMDA (executed in 2006, i.e. before coming into force of the AERA Act)

1.11. AERA has extensively dealt with this issue in its final tariff order in respect of MIAL (Order No. 32/ 2012-13, Jan 15, 2013, Paras 20.11, page 330) for determining the “X” factor in accordance with the SSA (Schedule 1 calculations) referring to communication from the Government of India that revenues from services like cargo and ground handling be treated as non-aeronautical revenues (Vide Decision XVII on page 345 of the order) stating that

“The Authority calculates the X-Factor based on the Government’s letter No.AV.24032/04/2012-AD dated 10.09.2012 that the revenue from services of **cargo and ground handling** (Emphasis supplied) in Delhi and Mumbai Airports be regarded as non-aeronautical revenue in the hands of the respective Airport Operators, irrespective of whether these services are provided by the Airport Operator itself or concessioned out to third parties.

1.12. It will be useful to reproduce some part of the reasoning of AERA to arrive at this decision. This is given below:

Observations in respect of treatment of revenues from Cargo & Ground Handling services:

The Authority had in the DIAL Tariff Determination Order, extensively dealt with the issue of treatment of revenue from Cargo and Ground Handling in respect of DIAL (paras 21.6.18 to 21.6.27 refers). It had also discussed the provisions of the SSA entered into between the Government of India and DIAL as well as the OMDA entered into between AAI and DIAL. It had stated therein that the revenue in the hands of the airport operator on account of rendering Cargo and Ground Handling services (being aeronautical services as per the AERA Act) by himself would be treated as aeronautical revenue. However, if the airport operator has outsourced these services to a third-party concessionaire (which may or may not include JV), the revenues which the airport operator would receive from such third-party concessionaire would be treated as non-aeronautical revenues. While arriving at this distinction and categorisation the Authority had gone into the relevant provisions of the AERA Act as well as the two agreements mentioned above.

As per the AERA Act aeronautical services, namely, Ground Handling, Cargo Facility and Supply of Fuel to the aircraft are defined as aeronautical services under Section 2(a) of the Act. Further, under Section 13(a) of the Act, the Authority is required to determine the tariff for aeronautical services, taking into consideration, inter alia, the "concessions offered by the Central Govt. in any agreement or memorandum of understanding or otherwise" (sec 13(1)(a)(vi) and any other relevant factors [sec 13(1)(a)(vii)].

The Authority had, therefore, while arriving at the above-mentioned approach of treatment of revenue from Cargo and Ground Handling services had taken into account these provisions of AERA Act, noting that the AERA Act specifies cargo service as an aeronautical service and thus has to be regarded as such. The Authority is also cognizant of the fact that both SSA and OMDA clearly mention formation of "Regulatory Authority" in OMDA and "Economic Regulatory Authority" in SSA so that the bidders were fully aware of this intention of the Government at the time of the bidding process.

The Authority had issued its consultation paper in respect of tariff determination of Delhi International Airport on 03.01.2012. In response to this paper, the Government had issued a letter No. AV24032/4/2012-AD dated 09.03.2012 to the Authority recognising that Cargo and Ground Handling services are defined as aeronautical services in the AERA Act while they are categorised as non-aeronautical services under OMDA and further stating that AERA should adhere to the provisions of OMDA.

After going through the above-mentioned provisions in the Act, SSA, OMDA as well as the Government's letter dated 09.03.2012, the Authority had given its decision in detail in Para 24 of the DIAL Tariff Determination Order, noting that:

"The MoCA have commented on this approach stating, inter alia that the Authority should adhere to the relevant provisions of the contractual agreements in the process of determination of tariff. The Authority infers from the Ministry of Civil Aviation's (MoCA) letter No.AV.24032/4/2012-AD, dated 09.03.2012, that according to MoCA's interpretation revenues from Cargo and Ground Handling services accruing to the airport operator should be regarded as non-aeronautical revenues, regardless and irrespective of whether these services are provided by the airport operator himself or concessionaire (including JV) appointed by the airport operator."

The Authority had in the DIAL Tariff Determination Order, also stated that "the above inference of the Authority is being brought to the notice of the Government". The Authority further decided that "Depending on the confirmation of the Government on the treatment of revenues from Cargo and Ground Handling services, the Authority would duly consider the matter and the correction/truing up as appropriate would be considered in the next control period commencing from 1 April, 2014."

Thereafter, MIAL vide its letter no. MIAL/CEO/9 dated 10.05.2012 requested the MoCA to confirm the above-mentioned inference of the Authority with respect to the interpretation of the Government's letter dated 09.03.2012. The Government asked for the comments of the Authority on the letter of MIAL. It also asked what specific issues on which clarification/confirmation was requested by the Authority from the Government. The Authority gave its detailed comments vide its letter no AERA/20010/MYTP/MIAL/2011-12/Vol.III/1342 dated 03.09.2012 to the Government giving its detailed reasoning and logic for making a distinction between the nature of the revenue from Cargo services if these are provided by the airport operator himself (the nature of the revenue will then be aeronautical revenue) as contrasted from its nature when the airport operator does not provided it himself but concessioned it out to a third party (in this case the nature of the revenue will be non-aeronautical revenue). The Government in its response to these letters replied vide letter No.AV.24032/04/2012-AD dated 10.09.2012, inter alia, stating as under:

"revenues from Cargo and Ground Handling services accruing to the airport operator should be categorized as non-aeronautical revenues as provided under the OMDA. This categorization is regardless and irrespective of whether these services are provided by the airport operator himself or

through concessionaires (including JV appointed by the airport operator). The same clarification holds good even for CSI Airport, Mumbai as OMDAs of both the airports are identical.”

In this letter, the Government had also observed that:

“.....basic contention of AERA is that revenue from these (cargo and ground handling) services would be treated as aeronautical revenue if these services are provided by the airport operator himself and they would be treated as non-aeronautical revenue if they are provided by a third party through outsourcing contract, license etc”.

The Government had however stated that

“..this argument of AERA is not supported either by AERA Act or by OMDA. As per Schedule-6 of OMDA of Mumbai Airport, these services are classified as non-aeronautical. Section 13(1)(a)(vi) of the AERA Act clearly states that concessions offered by the Central Government in any Agreement or Memorandum of Understanding or otherwise will have to be taken into consideration by AERA while determining the tariff”.

Para 20.45. The Authority calculates X-factor based on the interpretation of the Government that the revenue from the aeronautical service namely, cargo service (when provided by the airport operator) be categorized as non-aeronautical revenue.

The letters received from the Ministry and the Authority’s response in this matter were annexed to the Consultation Paper No.22/2012-13 dated 11.10.2012.

20.23. The issue of different treatment in OMDA and the AERA Act was recently commented upon by CAG in its Report No. 5 of 2012-13. The Ministry in its response had recognised this difference and clarified as under:

“2.1 Conflict between OMDA and AERA Act in defining aeronautical and non-aeronautical services: OMDA pre-dates AERA Act:

The non-aeronautical services mentioned under OMDA were part of the bidding process. It is totally absurd to say that this provision was made for giving undue advantage to DIAL. Had that been the case, AERA Act should have been enacted to match the provisions of OMDA. Instead of undue benefit to DIAL, inclusion of services which were mentioned as non-aeronautical in OMDA, as aeronautical in AERA Act, brings transparency in setting of these charges, which would ultimately benefit the users.”

20.26. *The Government had however, in its letter No.AV.24032/04/2012-AD dated 10.09.2012 referred to above, stated that the revenues from Cargo and Ground Handling services accruing to the airport operator should be categorised as non-aeronautical revenues as provided under OMDA, and that this categorisation is regardless of whether airport operator himself provides these services or concedes them out. The interpretation of the Govt., of the provisions of OMDA is on the issue of revenues from the Cargo and Ground Handling Services accruing to the airport operator is different from that of the Authority. The substance of the Government's interpretation is that the revenues accruing to the airport operator (during the period he was himself rendering what according to the AERA Act is an aeronautical service) be reckoned at 30% of such gross revenues. The Authority had noted that the SSA is executed by the Government with MIAL and further that OMDA is executed between AAI (which is under the MoCA) and MIAL, and the Authority had noted the Government's interpretation on this issue.*

1.13. AERA issued the final tariff order in respect of MIAL (Order No. 13/2016-17, dated Sept 13, 2016, issued on Sept 29, 2016) for the second control period 1.04.2014 - 31.03.2019. Para 2 of this order deals with "Principles for Determination of Aeronautical Tariff". In Para 2.6 (page 17 of the order) makes specific mention of cargo and ground handling services and states that :

2.6. The Authority had also noted the difference between the provisions of the Act and those of OMDA in treating certain services as aeronautical or non-aeronautical. For e.g. the Act mentions services provided for ground handling services relating to aircraft, passengers and cargo at an airport as well as services provided for cargo facility at an airport as aeronautical services whereas OMDA mentions cargo handling, cargo terminals, and ground handling services under non-aeronautical services.

2.7. The above principles including the variances have been considered by the Authority in its determination of aeronautical tariff in respect of CSI Airport, Mumbai for the 1st Control Period. The Authority had proposed to adopt the same principles for its determination of aeronautical tariff for the current Control Period from 01.04.2014 till 31.03.2019.

1.14. It is thus clear from the orders of AERA and the Government's letter referred to in the order of DIAL and MIAL, that since cargo, ground handling are mentioned in the OMDA (that pre-dates the AERA Act) as *non-aeronautical services*, they should be regarded as such as far as DIAL and MIAL is concerned. The ratio of the Government of India's letter is, in effect, to adhere to the provisions of contractual agreements (that pre-date the passing of AERA Act), for the purposes of determining tariffs for such entities.

1.15. Having regard to the above position, it is noted that the Concession Agreement signed between the Government of India and GHIAL defines “airport” as *"Airport" means the Greenfield international airport comprising of the Initial Phase, to be constructed and operated by HIAL at Shamshabad, near Hyderabad in the State of Andhra Pradesh and includes all its buildings, equipment, facilities and systems and including, where the circumstances so require, any Expansion thereof as per the Master Plan;*” The Concession Agreement also speaks, inter alia, of **"Airport Activities"** that are defined as: *"means the provision, at or in relation to the Airport, of the activities set out at Schedule 3, Part 1 as amended from time to time, pursuant to ICAO guidelines, provided that any activities that are not materially similar to those contemplated in Schedule 3, Part 1 shall require the mutual agreement of the Parties"*.

1.16. Schedule 3, Part 1 referred to in the definition of “Airport Activities” whereas Schedule 3, Part 2 lists the non-airport activities. Both these parts are given in detail below:

SCHEDULE 3: PART 1 -AIRPORT ACTIVITIES

Airport Activities include the following services, facilities and equipment:

Airside facility

Airfield pavements (runway, apron and taxiway system)

Airfield ground lighting

Airside and perimeter security including access control and patrolling

Taxiways including one emergency take off runway/parallel taxiway

Apron control and allocation of aircraft stands

Arrivals concourses

Bird scaring

Emergency services

Crash, rescue and fire service

Flight catering services

General aviation ground handling

General aviation facilities

Ground handling services

Ground handling equipment

Ground power for aircraft

Cargo terminal

Cargo handling and cargo terminal operations, custodial S~N~C~S

Aircraft cleaning services

Aircraft fuelling services

Hangars and aircraft maintenance services

Pre-conditioned air for aircraft

Pavement surface water drainage

Guidance systems and marshalling

Airside/landside/terminal facilities

Facilities for the disabled and other special needs people

Check-in counters

Cleaning, lighting, cooling and air conditioning of public and office areas

Customs and immigration halls

Baggage systems including outbound and reclaim

Flight information and public-address systems

Information desks and staffing

Bus lounge for servicing remote stands

Staircases, lifts and escalators

Passenger boarding bridges (aerobridges)

Lost property

Noise insulation and sound proofing

Passenger and hand baggage search

Piers and gate rooms

Policing and general security

Prayer rooms

Scheduling committee support

Signage for easy orientation of passengers

Staff entries with search and security facilities

Toilets and nursing mothers' rooms

X-Ray service for carry on and checked-in luggage

Airline lounges

Banks I ATM I Bureaux de Change

Business centre

Duty free sales in international section

Hotel reservation services

Restaurants, bars and other refreshment facilities

Special assistance services

Tourist information services

Travel agency

Messenger services

VIP lounges

Infrastructure and utilities for the airport complex (mainly landside)

Airside and landside access roads and forecourts

Utilities (including electricity, telecommunications and water)

Waste water and refuse treatment and disposal

Landscaping and horticulture

Line maintenance services

Public telephones

Vehicle fuelling services

Vehicle rental

Foul and surface water

Drainage

Vehicle parking

Cloak rooms

Conference centre

Freight forwarders1 consolidators1 agents

Retail shops

Lockers

Observation terrace

Porter services

Post office

Trolley services

"Non-Airport Activities" means the provision, at or in relation to the Airport, of the services set out at Schedule 3, Part 2;

SCHEDULE 3: PART 2 - NON-AIRPORT ACTIVITIES

Landside Non-Airport Activities include the following services, facilities and equipment:

Offices for freight consolidators/ forwarders or agents at cargo complex, offices for airlines Bus terminal for local and regional buses, Airport shuttle transport services (hotels, city centre, etc.);

Business parks;

Airport hotels, restaurants, conference venues, meeting facilities, business centres, trade fairs, real estate, theme parks, amusement arcades, golf courses, sports facilities, banks and exchanges and shopping malls;

Commercial buildings / complexes/ entertainment complexes/ tourist related activities;

Independent power producing plants for emergency supply may be established in connection with business parks;

Viewing point (at an existing hilltop) with parking, access and small food and beverage facility;

Any other revenue generating activity related to the development of the Site or of the Airport in relation to Non-Airport Activities

1.17. The Concession Agreement has provisions regarding "Airport Charges" that are defined in the "Definitions" section and activities which will attract these charges in Para 10.2 of the CA. Para 10.3 also relates to what it calls "Other charges" that specifically exclude the "Regulated Charges". These provisions are given as under:

"Airport Charges" means (Definitions):

*(i) amounts charged or imposed by HIAL in respect of the provision or use of the facilities and services which are included **within Airport Activities (emphasis supplied)**;*

(ii) amounts charged or imposed by HIAL on or in respect of passenger and cargo movement or aircraft traffic into, on, at or from the Airport; and

(iii) any other amounts deemed by this Agreement to be Airport Charges and further including any amounts to be collected by HIAL on behalf of Gol, GoAP or AAI;

10.2 Airport Charges

10.2.1 The Airport Charges specified in Schedule 6 ("Regulated Charges") shall be consistent with ICAO Policies.

10.2.2 The Regulated Charges set out in Schedule 6 shall be the indicative charges at the Airport. Prior to Airport Opening HIAL shall seek approval from the Ministry of Civil Aviation for the Regulated Charges, which shall be based on the final audited Project cost. The Ministry of Civil Aviation shall, subject to the proposed Regulated Charges being in compliance with the principles set out in Article 10.2.1, grant its approval thereto within a period of forty-five (45) days of the date of the application being submitted by HIAL. Within 120 days after the Airport Opening Date, HIAL shall submit the final audited Project cost to the Ministry of Civil Aviation.

10.2.3 If at any time prior to the date the IRA has the power to approve the Regulated Charges HIAL wishes to amend such charges it shall seek consent from the Ministry of Civil Aviation for such amendments. The Ministry of Civil Aviation shall, subject to the proposed charges being in compliance with the principles set out in Article 10.2.1, grant its approval of such amendments within a period of forty-five (45) days of the date of the application being submitted by HIAL.

10.2.4 From the date the IRA has the power to approve the Regulated Charges, HIAL shall be required to obtain approval thereof from the IRA. In this regard HIAL shall submit to the IRA, in accordance with any regulations framed by the IRA, details of the Regulated Charges proposed to be imposed for the next succeeding relevant period together with such information as the IRA may require for review. Unless otherwise agreed in writing between the Parties such approved Regulated Charges shall comply with the principles referred to in Article 10.2.1 until the earlier of (i) the date that outstanding Debt in respect of the Initial Phase has been repaid and (ii) fifteen (15) years from Airport Opening Date.

10.3 Other Charges

*HIAL and/or Service Provider Right Holders shall be free without any restriction to determine the charges to be imposed in respect of the facilities and services provided at the Airport or on the Site, other than the facilities and services in respect of which **Regulated Charges** are levied.*

1.18. This brings us to the definition of “**Regulated charges**” that is given in Schedule 6

SCHEDULE 6: REGULATED CHARGES

Pursuant to and without prejudice to the principles set out in Article 10.2 of this Agreement, HIAL shall be entitled to levy and recover from airline operators, passengers and other users and in respect of both domestic and international aircraft and passenger movements, at rates consistent with ICAO Policies, the following Regulated Charges:

(i) Landing, Housing and Parking charges (domestic and international):

The charges to be adopted by HIAL at the time of Airport Opening will be the higher of:

(a) The AAI tariff effective 2001 duly increased with inflation index, as set out hereunder, up to the Airport Opening Date, or

(b) The then prevailing tariff at the other AAI airports.

(ii) Passenger Service Fee (domestic and international):

The charges to be adopted by HIAL at the time of Airport Opening will be the higher of:

(a) The AAI tariff effective 2001 duly increased with inflation index, as set out hereunder, up to the Airport Opening Date, or

(b) The then prevailing Passenger Service Fee at the other AAI airports

The Passenger Service Fee chargeable by HIAL, as given above, is inclusive of the cost of security expenditure on Central Industrial Security Force (CISF). This component of the cost towards security expenditure on CISF shall be revised upwards by HIAL as and when directed by GOI, subject to the provision that such increases will also be accompanied by similar increase in the Passenger Service Fee.

(iii) User Development Fee (UDF) (domestic and international):

HIAL will be allowed to levy UDF w.e.f. Airport Opening Date, duly increased in the subsequent years with inflation index as set out hereunder, from embarking domestic and international passengers, for the provision of passenger amenities, services and facilities and the UDF will be used for the development, management, maintenance, operation and expansion of the facilities at the Airport.

1.19. A combined reading of the above provisions of the Concession Agreement of Government of India with GHIAL would indicate that there are only three types of

“Regulated Charges” contemplated in the CA as (i) Landing, Housing and Parking charges (domestic and international), (ii) Passenger Service Fee (domestic and international) and (iii) User Development Fee (UDF) (domestic and international). Furthermore, the CA expressly mentions that for “other Charges (para 10.3 of the CA), *“HIAL and/or Service Provider Right Holders shall be free without any restriction to determine the charges to be imposed in respect of the facilities and services provided at the Airport or on the Site, other than the facilities and services in respect of which **Regulated Charges** are levied”.*

1.20. Pertinently, though admittedly, the services of Cargo, ground handling and Aircraft fueling services are mentioned as “Airport Activities”, they do not find any mention in Schedule 6. **Charges for these services or activities are therefore non regulated charges.** Clause 10.3 deals with “Other Charges”. HIAL has a right to determine charges for those facilities which are not covered in “Regulated Charges”. Hence, HIAL can charge whatever it desired without any regulation in that behalf. Under the CA, they will be deemed to be non-regulated services though *the position under AERA Act is, however, to the contrary.*

1.21. This case is covered by the ratio of the Governments letter referred to by AERA while passing the tariff order in respect of MIAL that the provisions of the Concession Agreement (that pre-dates the AERA Act) should be adhered to while determining the aeronautical tariffs for that airport. In case of GHIAL therefore, Cargo, ground handling and Aircraft fueling services though airport activities are outside the ambit of regulated charges. Hence the Regulator that has been contemplated in the CA (called Independent Regulatory Authority or the IRA), does not determine charges for these services or activities.

1.22. Clause 10.2.3 of the CA (see Para 1.17 above) clearly speaks of the power of IRA to approve the **Regulated Charges**. As mentioned in the above paragraphs, cargo and ground handling charges are not specified as “regulated charges”. The AERA Act, does classify airport activities and non-airport activities or airport and non-airport revenues. Neither does the CA does refer to either “aeronautical services” or “Non-aeronautical services”. What it does is to classify activities as “airport activities” and “Non-airport Activities” and clearly specifies regulated charges. Most of the “airport activities” are not aeronautical services (under AERA Act) so to equate all *airport* activities as *aeronautical* activities will be erroneous. AERA is mandated to prescribe charges for aeronautical services. By the ratio of the letter of the Government No.AV.24032/04/2012-AD dated 10.09.2012 referred to above, the provisions of CA (that pre-dates the passage of AERA Act) will have to be complied with.

1.23. At the time of signing of the CA in Dec 2004, the classification was made according to “airport activities” and “non-airport activities” without classification of aeronautical services (giving aeronautical revenue) and non-aeronautical services (giving

non-aeronautical revenue). When the airport regulation was on “single till”, the classification of aeronautical and non-aeronautical services (and revenues arising therefrom) did not matter and aeronautical services were taken as defined in AERA. With 30% hybrid till regime, it is necessary to separate aeronautical revenues from non-aeronautical revenues. Furthermore, the Government’s letter No.AV.24032/04/2012-AD dated 10.09.2012 referred to above indicates that the provisions of the Concession Agreements should be strictly adhered to. If cargo, ground handling and fuel supply are to be treated as “aeronautical services” (since they are defined as such in AERA), this would mean that this aeronautical service (giving aeronautical revenue), is outside the purview of “regulated charges” (and not amenable to be regulated by AERA) as defined by the CA. As a general proposition, the only way of harmoniously constructing the framework of CA with the AERA Act, is to *regard only such activities that CA has specified as being both the “airport Activities” and attracting “regulated charges” as aeronautical services* for the purposes of the CA (that pre-dates passage of AERA Act by four years). By exclusion, those airport activities that do not attract regulated charges will be regarded as non-aeronautical services for the purposes of CA. Such a general proposition alone will be free from any internal inconsistencies and also have harmonious construction with AERA Act.

1.24. Hence, the “**Airport Activities**” can be classified as (i) Aeronautical Services that attract regulated charges (giving aeronautical revenue) and (ii) Non-Aeronautical Services that are outside the ambit of regulated charges (giving Non-aeronautical revenues). Viewed from this perspective, cargo, ground handling and fuel supply, though “aeronautical activity” are not aeronautical services within the context of CA read with AERA Act. Charges for cargo, ground handling and fuel supply would not be regulated by AERA. Hence, for the purposes of the CA, cargo and ground handling will need to be classified as Non-Aeronautical services and revenue therefrom as Non-Aeronautical Revenues.

1.25. **Non-Airport Activities:** “Non-Airport Activities” means the provision, at or in relation to the Airport, of the services set out at Schedule 3, Part 2. These do not fall in “regulated charges”, and given the classification of aeronautical and non-aeronautical classification given in Para 1.23 above), these are not “non-aeronautical” services or activities (within the framework of the CA).

1.26. **Regulatory Till:** Specifically, with respect to Hyderabad airport, vide ORDER No. 14/2016-17 dated 23rd January 2017, AERA has observed and stated as under:

2.2..... Recently in the case of Hyderabad, the Govt. directed the Authority under section 42 of the AERA Act to take into account only 30% of the non-aeronautical revenues for tariff fixation during the first control tariff period. The Ministry has now come with a clear cut policy to the effect that a ‘Hybrid Till’ of 30% shall be used for determination of tariffs at all airports.

1.27. The National Civil Aviation Policy 2016, henceforth NCAP, was approved by the Union Cabinet on June 15, 2016. On the Regulatory till, NCAP states that (Sub-clause (c) of Clause 12 on Page 16 :

To ensure uniformity and level playing field across various operators, future tariffs at all airports will be calculated on a 'hybrid till' basis, unless otherwise specified for any project being bid out in future. 30% of non-aeronautical revenue will be used to cross-subsidise aeronautical charges.

1.28. In accordance with the pronouncements in the NCAP, AERA issued an order No. 14/2016-17 (dated 12th Jan. 2017, issued on 23rd Jan 2017), titled "In the matter of aligning certain aspects of AERA's Regulatory Approach (Adoption of Regulatory Till) with the provisions of the National Civil Aviation Policy-2016 (NCAP-2016) approved by the Government of India" wherein it took into account the NCAP's approach towards Regulatory till and felt that there is need to revisit the guidelines issued by the Authority and align its guidelines on the Till mechanism in line with the New Civil Aviation Policy (NCAP). AERA therefore ordered that

ORDER:*The Authority in exercise of powers conferred by section 13(1)(a) of the Airports Economic Regulatory Authority of India Act, 2008 and after careful consideration of the comments of the stakeholders on the subject issue, decides and orders that:*

- (i) The Authority will in future determine the tariffs of major airports under "Hybrid Till" wherein 30% of non-aeronautical revenues will be used to cross-subsidise aeronautical charges. Accordingly to that extent the airport operator guidelines of the Authority shall be amended. The provisions of the Guidelines issued by the Authority, other rather than regulatory till, shall remain the same.*
- (ii) In case of Delhi and Mumbai airports, tariff will continue to be determined as per the SSA entered into between Government of India and the respective operators at Delhi and Mumbai.*

1.29. In economic regulation of airports, there are three types of regulatory tills: (a) Single Till, (b) Dual Till and (c) Hybrid Till. In *Single Till*, revenues and costs associated with providing both aeronautical and non-aeronautical services are taken together for the purposes of determining aeronautical charges at the airport. In other words, 100% revenues and costs associated with providing non-aeronautical services are taken into account. In *Dual Till*, only revenues and costs associated with providing aeronautical services are taken into account for the purposes of determining aeronautical charges at the airport. In other words, zero percent revenues and costs associated with providing non-aeronautical services are taken into account. *Hybrid till*, as the name suggests, only a

certain percentage (in this case 30%) of revenues and costs associated with providing non-aeronautical services are taken into account for subsidizing the aeronautical charges. In this sense, “Hybrid Till” is also a “Shared Revenue” till. In fact, many times, the words “Hybrid till” and “Shared Till” are used synonymously. For example, in the comments of Airport Authority of India’s comments on the White Paper issued by AERA VARIOUS ISSUES RELATING TO REGULATED OBJECTIVES AND PHILOSOPHY IN ECONOMIC REGULATION OF AIRPORTS AND AIR NAVIGATION SERVICES, AAI regards “Hybrid” and “Shared” as synonymous. For example, in its comments of Till, it states its views on Till as under:

“Till – Treatment of Non-aeronautical revenue and adoption of Single, Dual or Hybrid (Shared) Till” as under:

....in case of DIAL and MIAL, there is a provision to adopt ‘Hybrid (Shared) Till’ as per the State Support Agreement entered between JVCs and GOI for the purpose of fixation of tariff..

1.30. From a combined reading of the comments of Airport Authority of India’s comments on the White Paper (Para 1.29 above) and the Order No 14/2016-17 of AERA (Para 1.28 above) the words “Shared Till” and “Hybrid Till” are used interchangeably. AERA’s order No. 14/2016-17 clearly stipulates that it will follow a “Hybrid Till” at 30%. In *Hybrid Till*, all the costs associated with generating the non-aeronautical revenue (as may be defined in a given Agreement) are subtracted from the Non-aeronautical revenue and the net result is used to compute the amount of cross subsidization towards aeronautical charges. Hence a part of the Non-Aeronautical Revenue (after netting of the costs associated with generating the Non-Aeronautical Revenue) is so to say “shared” with the Aeronautical Revenue (also likewise netted) and aeronautical charges determined accordingly.

1.31. The wording “shared till” also connotes that some portion of the Non-Aeronautical Revenue is shared along with the Aeronautical Revenue to arrive at the airport charges (for aeronautical services (assuming that the Non-Aeronautical services are kept unregulated, meaning thereby that the airport operator is free to charge for them at will). Merely calling a regulatory till “shared till” does not per-se and ipso-facto mean that the costs associated with generating the non-aeronautical services are *not* to be reckoned or deducted while arriving at the number on which the shared till percentage is to be applied. For example, the State Support Agreement of Delhi Airport, (Schedule 1), is in Pari materia with the CA of Goa Airport. In the SSA of Delhi Airport, it is found that the words used in giving a formula for determination of aeronautical charges are:

“Calculating the aeronautical charges in the shared till inflation – X price cap model.”

Explaining the terms of the formula,

$$TR_i = RB_i \times WACC_i + OM_i + D_i + T_i - S_i$$

Where

TR = target revenue

RB = regulatory base pertaining to Aeronautical Assets and any investments made for the performance of Reserved Activities etc. which are owned by the JVC, after incorporating efficient capital expenditure but does not include capital work in progress to the extent not capitalised in fixed assets. It is further clarified that working capital shall not be included as part of regulatory base. It is further clarified that penalties and Liquidated Damages, if any, levied as per the provisions of the OMDA would not be allowed for capitalisation in the regulatory base. It is further clarified that the Upfront Fee and any pre-operative expenses incurred by the Successful Bidder towards bid preparation will not be allowed to be capitalised in the regulatory base.

WACC = nominal post-tax weighted average cost of capital, calculated using the marginal rate of corporate tax

OM = efficient operation and maintenance cost pertaining to Aeronautical Services. . It is clarified that penalties and Liquidated Damages, if any, levied as per the provisions of the OMDA would not be allowed as part of operation and maintenance cost.

D = depreciation calculated in the manner as prescribed in Schedule XIV of the Indian Companies Act, 1956. In the event, the depreciation rates for certain assets are not available in the aforesaid Act, then the depreciation rates as provided in the Income Tax Act for such asset as converted to straight line method from the written down value method will be considered. In the event, such rates are not available in either of the Acts then depreciation rates as per generally accepted Indian accounting standards may be considered.

T = corporate taxes on earnings pertaining to Aeronautical Services

S = 30% of the gross revenue generated by the JVC from the Revenue Share Assets. The costs in relation to such revenue shall not be included while calculating Aeronautical Charges.

“Revenue Share Assets” shall mean (a) Non-Aeronautical Assets; and (b) assets required for provision of aeronautical related services arising at the Airport and not considered in revenues from Non-Aeronautical Assets (e.g. Public admission fee etc.)

$$RB_i = RB_{i-1} - D_i + I_i$$

Where RB₀ for the first regulatory period would be the sum total of

- i. *the Book Value of the Aeronautical Assets in the books of the JVC and*
- ii. *the hypothetical regulatory base computed using the then prevailing tariff and the revenues, operation and maintenance cost, corporate tax pertaining to Aeronautical Services at the Airport, during the financial year preceding the date of such computation.*

I = investment undertaken in the period

1.32. Attention is drawn to the way “S” factor is worded. It speaks of a percentage of “30% of the gross revenue generated by the JVC” and also specifically states that “The costs in relation to such revenue shall not be included while calculating Aeronautical Charges”. It is clear that the draftsman of the SSA found that merely using the term “shared till” will not ipso-facto connote that the *costs in relation to such (non-aeronautical) revenue would not be included while calculating Aeronautical Charges* and added the further qualification or clarification about the costs in relation to non-aeronautical revenue. Furthermore, “S” factor speaks of “30% of the gross revenue generated by the JVC from the Revenue Share Assets.” Clearly, the words “shared till” are used to merely connote that some portion of the non-aeronautical revenue is to be reckoned while calculating the aeronautical charges. In other words, “shared till” is not a “term of art¹” in airport economics with respect to regulatory till so that merely using this term will automatically connote that the costs associated with generating of non-aeronautical revenue are to be excluded from the percentage of shared till.

1.33. It will thus be clear that the regulatory till at GHIAL will be “Hybrid Till” at 30% and that the expenses can be deducted from Non-Aeronautical Revenue for the purpose of 30% cross subsidy under Hybrid Till.

1.34. I now propose to answer the queries ad seriatim as under (the queries are already mentioned in Para 1.7 above but are nevertheless reproduced below only for ease of referencing):

Query 1: *Whether the expenses incurred for non-aeronautical activities, can be deducted from Non-Aeronautical Revenue before cross subsidisation of 30% Non-Aeronautical Revenue under Hybrid Till?*

Answer: Yes. (See Para 1.33 above)

Query 2: *What revenue shall constitute the non-aeronautical revenue in the hands of GHIAL?*

¹ A word or phrase that has a precise, specialized meaning within a particular field or profession.

Answer2: Revenues from those Airport Activities that are outside the “regulated charges” will constitute “Non-Aeronautical Revenue” (See Para 1.23 and 1.24 above)

Query 3: *In view of the concession granted to GHIAL under the CA particularly under Articles 10.2, 10.3 read with Schedule 6, whether the cargo, fuelling and ground handling services are treated as part of aeronautical or non-aeronautical.*

Answer 3: For the purposes of the CA, cargo and ground handling will need to be classified as Non-Aeronautical services and revenue therefrom as Non-Aeronautical Revenues (Para 1.24 above)

Query 4: *Whether the revenue from non-airport activities is liable for cross subsidy?*

Answer 4: No. Only revenues from non-aeronautical services (activities) are liable for cross subsidy. (Vide Para 1.25 above)

The above opinion is given on the basis of factual position and documents provided by the Querist as well as my understanding of these documents based on my work as an economic regulator of the major Airports under AERA.

Furthermore, this opinion cannot be treated as evidence before any Court, Tribunal or Quasi-judicial authority and has been given on the basis of materials furnished by the Querist.

Dated: July 8, 2017



Yashwant Bhave

Ex-Chairman, Airports Economic Regulatory Authority (Retd)

Response to Consultation
Paper No. 11/2021-22 dated
02.07.2021

Determination of
Aeronautical Tariffs

Rajiv Gandhi International
Airport, Shamshabad,
Hyderabad

(01.04.2021 – 31.03.2026)

Response by

GMR

Hyderabad

International

Airport

Limited

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DISCLAIMER

Please note that this response/submissions to the present consultation paper is being filed by GHIAL without prejudice to its rights and contentions with regard to the treatment of services of CGF and revenue therefrom, forex losses, real estate income, dividend and other income etc.

GHIAL also request the authority to adhere to confidentiality of our response/submissions and use the relevant sections of our response/submissions on need base only without giving reference to various opinions and certificates attached as part of our evidence-based submissions and any forward looking statements made in our response shall also be kept confidential, while sharing our submissions with various stakeholders.

I. INTRODUCTION

Airports Economic Regulatory Authority of India (herein after referred to as 'the Authority') has issued a Consultation Paper No. 11/2021-22 on July 2, 2021 regarding Determination of Aeronautical Tariff for Rajiv Gandhi International Airport (RGIA), Hyderabad being operated by GMR Hyderabad International Airport Limited [hereinafter referred to as GHIAL, the company, us and/or we] for the 3rd Control Period of 01.04.2021 – 31.03.2026.

GHIAL would like to submit that the Concession Agreement (CA) signed by the Government of India with GHIAL is binding for ready reference; the integrity and sanctity of contractual provisions have to be respected and upheld. Section 13(1)(a) of the AERA Act entitles the Authority to perform the function of determining the tariff for the aeronautical services taking into consideration various factors including the Concession Agreement. Regulatory powers therefore have to be exercised in a manner which are consistent with contractual and vested rights of GHIAL under the concession agreement, land lease agreement and state support agreement.

We request the Authority to favourably consider our submissions, elaborated in the subsequent sections, while determining the tariff Order for RGIA, Hyderabad.

II. GUIDING PRINCIPLES OF THE TARIFF DETERMINATION

1. The services of and Revenue recognition from the Cargo, Ground Handling and Fuel Throughput (CGF)

The Authority has proposed to treat Cargo, Ground Handling and Fuel Throughput as aeronautical and to be included in the calculation tariff determination accordingly.

The Authority has mentioned that it noted the reference made by HIAL to the direction of Hon'ble TDSAT Order dated March 04, 2020 to the effect "It would be a just and better course of action to remit the limited number of surviving issues for fresh consideration and adjudication by AERA, which is direct to act accordingly." The Authority has further taken note of the Order of Hon'ble TDSAT dated December 16, 2020 (BIAL order) wherein all the issues, which are equally relevant for HIAL have been decided on merit and the surviving issues stand decided as listed in para 1.4.5, Chapter 1 of this Consultation Paper.

The Authority had observed that HIAL's Concession Agreement defines 'airport activities' to mean provision at or in relation to the airport, of the activities set out at Schedule-3, Part-1, as amended from time to time. The provision of ground handling, cargo and aircraft fuelling services have been included in the list of 'airside facilities' provided in Schedule-3, Part-1 of the Concession Agreement. The Authority further observed that as per HIAL's Concession Agreement, "Independent Regulatory Authority" or "IRA" means the Airports Economic Regulatory Authority, or any other regulatory authority set up to regulate any aspect of 'airport activities'.

Hence, even going by the Concession Agreement, the Authority is to regulate "any aspect" of "airport activities" thus, including cargo, ground handling and fuel farm. Accordingly, the Authority in Order No. 38/2013-14 for the First Control Period had ruled that, "The remit of the Authority would thus be what the legislature has given to it and this has already been embodied and expressly provided for in the Concession Agreement. After the promulgation of AERA Act, there can be no doubt that it needs to determine tariff for cargo, ground handling and fuel services."

The Authority had further observed that the Government of India had suo moto included services pertaining to cargo, ground handling and supply of fuel to aircraft in the list of aeronautical services under Section 2 (a) (iv), (v) and (vi) in the AERA Act, 2008. Therefore, classifying cargo, ground handling and fuel farm services as aeronautical services was conscious decision of the Government during the formulation of the AERA Act, which was taken post the award of concessions of all four airports i.e. HIAL, MIAL, DIAL and BIAL.

Further, the Authority was guided by the letter issued by the Ministry of Civil Aviation to the Authority in respect of Determination of Multi-year Tariff for Bangalore International Airport Limited (BIAL) - Consultation Paper No. 14/2013-14, wherein the Ministry had recommended the recognition of cargo, ground handling and fuel farm as aeronautical services.

More recently, the Hon'ble TDSAT judgment passed in the matter of AERA vs BIAL on 16th March 2021 has put forward that:

'by the virtue of explicit list of regulated charges given in Schedule 6 of the Concession Agreement, Clause 10.3 of the Concession Agreement vested BIAL and/or Service Provider Right Holders the freedom to determine the charges in respect of other facilities and services provided at the Airport or on the site, without any restrictions. But the right noted above is only to determine the charges and not to treat it as non-aeronautical charges. Significantly Clause 10.3 is for other charges, i.e. other than Airport Charges that are covered by Clause 10.2. Airport Charges vide above clause are restricted to only the regulated charges specified in Schedule 6 but Clause 10.1 which grants right to impose charges only upon BIAL or any Service Provider Right Holder or the AAI for any facilities and/or services provided at the Airport which are included within Airport Activities cannot be ignored. This clause begins with the words – "subject to Applicable Law.....".

The parties were aware that statutory provisions are in the offing for establishing a Regulator to look after the economic activities at the Airport and only temporarily this role was given to MoCA. Once the Act came into force, the right to impose charges in respect of Airport Activities became subject to such a law particularly as per definitions in the Act and therefore, a subordinate right of determining such charges imposable or determinable under the Concession Agreement will definitely be governed by the applicable law i.e. the Act. Section 13(1)(a) entitles the Authority to perform the function of determining the tariff for the aeronautical services taking into consideration various factors including the Concession Agreement. Hence, when the provisions in the Concession Agreement such as Clause 10.1 permit the operation of applicable law on the subject, AERA definitely got the right to determine the aeronautical services covered by CGF, more so in view of policy directive of MoCA for a dual till regime.'

Additionally, the judgment clearly states 'that any other interpretation allowing important aeronautical services of CGF to go beyond the tariff determination power of AERA will lead to diarchy in respect of determination of tariff for the aeronautical services. Such exercise must remain holistic and therefore, unified in the hands of the Regulator as per Section 13 of the Act.

Hence based on decision given by the Hon'ble TDSAT in case of BIAL and the HIAL Concession Agreement, HIAL TDSAT Order, Authority's principles of tariff determination in line with AERA Act and AERA Guidelines as issued from time to time, the Authority proposes to treat these three services as aeronautical in nature and the treatment of all building blocks pertaining to these services has been treated aeronautical in nature

Our Response:

In this regard GHIAL would like to submit to the Authority that the airport activities mentioned in Schedule 3, part 1 of CA are a master list of services,

all-encompassing facilities and equipment that have to be provided by the airport operator, but it does not mandate regulation of the said activities. Schedule 6 read with Article 10 of the Concession Agreement (CA) is the appropriate provision which deals with the Airport charges which can be regulated by the Authority.

Further it is submitted that the Schedule 6 of the Concession Agreement, maintains a clear distinction between regulated charges [Schedule 6 read with Article 10.2.] and other charges [Article 10.3.] A reading of the Concession Agreement, more particularly Articles 10.2 read with Schedule 6 and 10.3. will reveal that the cargo, ground handling and fuel supply (collectively referred to as "CGF") are covered under "other charges" and hence not liable to be regulated, as opposed to "regulated charges".

The AERA Act has explicitly protected the concessions granted by the central government. Under Sec 13(1)(a)(vi) the Authority has been mandated to take into consideration the concessions granted by the Central Government. Since the CA has the statutory protection, the Authority is bound to comply with the concessions so granted under the CA in its true spirit and letter.

The provisions of the CA are very clear and unambiguous that the Independent Regulatory Authority (IRA) shall determine only the Regulated Charges as mentioned in the Schedule 6 thereto. Hence, any charge beyond the scope of Schedule 6 is outside the purview of regulations and cannot be determined by IRA.

The Authority is aware that the Concession Agreement with GHIAL on 20.12.2004 i.e. much prior to the promulgation of AERA Act in 2008, whereby certain concessions were granted to GHIAL and in the Act the concessions so granted have been given statutory protection and the legislature mandated the Authority to take into consideration the same while determining the tariff.

The consideration and observations of the Authority are in contradiction to the AERA Act and the Concession Agreement which is amply clear from the following arguments:

- a. **AERA Act 2008:** Section 2 of the AERA Act contains definitions and begins with the phrase – "In this Act, unless the context otherwise requires.....". Various definitions such as Aeronautical Service, Airport, Service Provider etc. follow thereafter. The context is set out in the section 13 (1) (a), which clearly mandates that the concession has to be considered while determining the tariff. It may be noted that Section 13(1) (a) of the AERA Act, 2008 provides for determination of tariff for aeronautical services. Section 13(1) (a) (v) provides that, consideration should be paid to revenue generated from services other than aeronautical services. **It is also provided under Sec 13 (1)(a)(vi) that, the concession offered by the Central Government in any agreement or MOU or otherwise must be considered.**

In this regard, GHIAL would like to reiterate that vide Section 13(1)(a)(vi) of the AERA Act the Authority is mandated to determine the tariff for the aeronautical services taking into consideration,

"...the concession offered by the Central Government in any agreement or memorandum of undertaking or otherwise;"

A contextual reading of Section 13(1)(a)(vi) indicates that the concession granted by the Central Government must be mandatorily read into the AERA Act and all concessions granted therein have to be taken into consideration by the Authority while determining tariff. Hence, even as per the AERA Act the concessions granted must be taken into consideration while enumerating the aeronautical services, which in case of GHIAL is non aeronautical. The concession provisions are detailed in the subsequent section.

- b. **Concession Agreement:** Clause 10 of the Concession Agreement deals with the Charges to be levied at the Airport and 10.2.1 relates to the regulated charges to be levied which states as below:

"..10.2.1 The Airport Charges specified in Schedule 6 ("Regulated Charges")"

Further reliance is also placed on the definition of Regulatory Charges which in terms of the concession is as follows:

"Regulated Charges" has been defined in article 10.2.1 of the CA

More specifically, GHIAL would like to draw attention of the Authority to Schedule 6 ("Regulated Charges") of the Concession Agreement which succinctly mentioned the regulated charges that the Authority can regulate, under three broad headings:

- i. Landing, Housing and Parking charges (domestic and international)
- ii. Passenger Service Fee (domestic and international)
- iii. Development Fee (UDF) (domestic and international)

Further, GHIAL would also like to draw your attention to the clause 10.3 of the Concession Agreement wherein GHIAL has been given the concession in the form of freedom to determine charges for the services other than the facilities and services in respect of which Regulated Charges are levied. Following is the extract of relevant provision:

"10.3 Other Charges

HIAL and/or Service Provider Right Holders shall be free without any restriction to determine the charges to be imposed in respect of the facilities and services provided at the Airport or on the Site, other than the facilities and services in respect of which Regulated Charges are levied."

In terms of Clause 10.2.1, the Authority has the power to determine only the Regulated Charges as categorically and unambiguously mentioned in Schedule 6 of the Concession Agreement. Admittedly, in Schedule 6 of the Concession Agreement there is no mention of CGF. It is pertinent to mention here that schedule referred to by the Authority from the concession agreement i.e. Part 1 of Schedule 3 is in relation to provision of infrastructure in relation to Airport Activities which does not necessarily correspond to Regulated Charges under Schedule 6 or clause 10.2. by any stretch of imagination. Airport Activities mentioned in Schedule 3 are distinct from the Regulated Charges mentioned in Schedule 6. Therefore, any reliance by the Authority on schedule 3 part-1 is in contradiction of the provisions of the AERA Act and the CA. It is clearly stated under the CA that the Authority has power to determine only 'Regulated Charges' as mentioned in Schedule 6 in terms of section 13(1)(a)(vi) of the Act and not 'Airport Activities' mentioned in Schedule 3 part-1.

- c. **Opinion of the Attorney General:** In this regard, to a specific query to the Attorney General raised by MoCA pursuant to the directions of Hon'ble High Court of AP in WP. No. 6487/2014 filed by GHIAL; as to whether or not the Concession Agreement permits to use the revenues from non-aeronautical activities or services including the revenues from CGF and/or non-airport activities, to cross subsidize the charges for aeronautical services, the Attorney General had categorically opined that the CA has two relevant clauses, viz., Article 10.2 (which deals with Airport Charges which are also termed as Regulated charges) read with Schedule 6 (CGF are not covered under Schedule 6 and are hence not covered under Regulated Charges) and Article 10.3. (which deals with "Other Charges") and that HIAL has a right to determine charges for facilities which are not covered under 'Regulated Charges'. The Attorney General also has opined that it will be deemed to be non-regulated services under the CA and hence, **included under non-aeronautical services**. The opinion of the Attorney General was submitted to the Authority vide our submission, the same is again attached herewith as **Annexure I** for ready reference.

Expert Opinion:

It is pertinent to mention that the opinion rendered by Hon'ble Justice R.C. Lahoti, Former Chief Justice of India had also clearly opined that:

"1) While construing section 13(1)(a)(vi) of the AERA Act and acting thereunder, Article 10.2 and 10.3 of the Concession Agreement and other provisions thereof have to be kept in view. The AERA would be justified, and that would be a fair and just exercise of power, if the AERA may regulate the Regulated Charges as defined in the Concession Agreement and may not regulate any Other Charges in respect of the facilities and services provided at the Airport"

A copy of the Opinion rendered by Justice Lahoti is annexed herewith as **Annexure II**.

Further, an opinion from the learned Solicitor General of India was also obtained by MoCA on the issue of treatment of CGF. A copy of the said opinion rendered by the learned SG is attached herewith as **Annexure-III**.

At para 3.8 of the said opinion, the learned SG has elaborately dealt with the letter written by the Authority as well as the provisions of the CA and categorically opined that the CGF will have to be treated as non-aeronautical/non regulated activities for the purpose of tariff determination by AERA.

The promulgation of AERA Act doesn't give sweeping power to the Authority to determine cargo, ground handling and fuel services; and the powers conferred under the statute are to be read in conjunction with section 13(1)(a)(vi) of the AERA Act, 2008 where the supremacy of Concession Agreement is unequivocally emphasised and duly protected by the legislature.

The Authority has noted the Government's view that revenues from cargo, ground handling services and fuel supply which are defined as Aeronautical Services in the AERA Act, 2008 may be reckoned as Aeronautical Revenues. The Authority is entitled to have the view but the same can't be applied retrospectively on concessions which are prior to 2008 and by virtue of the concessions granted by the central government, the airport operator is entitled to treat CGF on par with "other charges" as it has been observed that the Authority is upholding cargo and ground handling revenue as non-aeronautical based on OMDA provisions of DIAL and MIAL.

The Authority has equated the concession agreement of Hyderabad to that of Bangalore Airport and cited MOCA letter in case of BIAL for treatment of CGF. In this context, GHIAL submit that the aforesaid letter of MoCA cannot be relied upon as it has a different contextual dimension (40% Hybrid Till in first control period Order of BIAL vs Single Till in first control period Order of GHIAL) and is not in line with our Concession Agreement.

Further, GHIAL would like to inform that Authority's reference of Ministry's letter for BIAL for treatment of services like cargo, ground handling and fuel supply as regulated and using the same as basis for HIAL appears to be a selective approach as the Authority ignored the directive of MoCA in case of DIAL and MIAL. Hence, reference is also invited to the directions of the MoCA to the Authority in case of DIAL and MIAL vide letter no F.NO. AV.24011/001/2011-AD (Attached herewith as **Annexure IV**). In the stated letter the MoCA had sought legal advice from Ministry of Law and Justice who had opined that the concessions offered by central government have to be statutorily honoured by AERA and are under the ambit of section 13 (1)(a)(vi) of the AERA Act, 2008. The relevant portion of the letter are reproduced below for ready reference:

Documents.

3. Further, this Ministry had sought the legal advice from the Ministry of Law & Justice on the issue. Ministry of Law & Justice has, inter-alia has opined as under:

Since admittedly the transaction documents like OMDA and SSA have been executed between GoI, AAI and DIAL & MIAL under Section 12A of the AAI Act read with sub section (4) of Section 12A and the functions of AAI have been assigned to DIAL and MIAL for management of the respective Airports, non-consideration of the same may not be in accordance with the agreed terms and conditions of the agreements executed. Therefore the concessions, if any, offered under such agreements either by the Central Government or through AAI appear to be the 'concessions' under the domain of section 13(1)(vi) of the AERA Act. Hence, AERA being an instrumentality of the State cannot unilaterally ignore the said binding agreements on the ground that they have been formally signed by the AAI. In view of above, it may be to advisable to consider and not to ignore these binding principal documents executed for the purpose of restructuring of the Airports at Delhi and Mumbai.

The MoCA taking cognizance of the above had directed the Authority to consider all concession documents under section 13(1)(a)(vi) of the AERA Act, 2008 in case of DIAL.

In view of the aforesaid, GHIAL requests the Authority to take due cognizance of the Concession Agreement executed by MoCA with GHIAL as guiding factor for determination of treatment of Cargo, Ground Handling and Fuel Farm as non-aeronautical services and the revenue generated or received therefrom as non-aeronautical revenue.

2. Treatment of Forex losses

The Authority has observed that HIAL had included "Forex Loss Adjustment as per AS 11" as part of its aeronautical and non-aeronautical RAB for the First Control Period. As per the Authority's Order No. 38/2013-14, the Authority had observed that "sourcing of funds is a conscious business decision of the airport operator" and accordingly had proposed to disallow the capitalization of adjusting for forex losses and excluded it from the calculation of RAB. For the Current Control Period, the Authority has decided to continue with its extant stance of disallowing the inclusion of forex loss adjustment in the calculation of RAB. However, such losses were proposed to be allowed partially as part of one-time adjustment to operating expenses subject to a certain cap in Order No. 34/2019-20

Further, the Authority as part of the tariff determination of the Second Control Period, while fixing the cap on cost of borrowing through ECBs, had not considered any fluctuation in foreign exchange rate during the First Control Period. However, the Authority had proposed to compare the cost of borrowing through ECBs (foreign currency borrowings) with that of the RTLs (domestic borrowings) and allow HIAL to recover forex losses to the extent that the effective cost of borrowing in foreign currency (net of forex gains / losses) is not higher than the cost of RTLs, subject to the ceiling of interest rates as per the decisions of the Order no 34/2019-20 for the Second Control Period. This is essential to ensure efficient borrowing by the Airport Operator in interest of the airport users.

Consequently, based on the direction of Hon'ble TDSAT's in case of HIAL, the Authority has reviewed the submission of HIAL and is of the view that foreign exchange losses are part of ordinary business risks to be borne by the operator and may not be foreseen as the fluctuations are not certain. Hence, the Authority proposes to consider the forex losses as per the previous treatment and the cap on upper limit as part of the operational expenditure.

Our Response:

GHIAL would like to submit that the principles of tariff determination prescribed by the Authority do not prohibit the airport operator to contract debt in foreign currency. The Authority would be mindful of the fact that in 2006-07 Rupee interest cost was very expensive (ranging between 10.5%-12.5% p.a.) vis-à-vis USD borrowing (~4% p.a.). The Rupee was appreciating against USD and the market perception was Rupee to strengthen further. Given such backdrop, GHIAL drew the ECB at an average USD INR rate of 40 and only took interest rate swap to convert the floating rate loan to fixed rate loan. The all-in-cost of ECB was working out to 8.73% p.a. vis-à-vis then Rupee borrowing cost of 12% p.a

Given the background, it is unfair to restrict the allowance of exchange rate variation actually suffered by the Company to an upper cap of Rupee borrowing cost on year on year basis due to the following reasons:

- a. Foreign exchange borrowing is resorted to with an intention to bring down the overall cost of borrowing over the period of loan rather than looking at cost for a shorter period/year.
- b. Decision of going in for Rupee or foreign currency borrowing is taken at a given point in time with the available information and long term view of currency at that time of such decision making
- c. Any subsequent artificial restriction of overall cost capping at Rupee borrowing cost is not only adhoc but also unfair

- d. There have not been any guidelines issued by the Authority which mandates either hedging the foreign currency borrowing or limiting the cost of foreign exchange variation to an overall Rupee cost. Any such decision can at best be prospective and not retrospective so that the Company can take necessary mitigating steps pronto. A retrospective application of such adhoc benchmarking with Rupee cost will put GHIAL into significant disadvantages as the exchange fluctuation is beyond the control of the Company
- e. ECB was availed with the anticipation that the Authority would allow the company to collect UDF in USD from international passenger booking tickets in USD. It may be noted that the Authority allowed DIAL to collect UDF from international passenger for tickets booked in USD in USD. This would have act as a natural hedge for the company and would substantially neutralize the losses it has incurred during the period.
- f. The foreign exchange variations are beyond the control of the airport operator and can be considered as uncontrollable expenses which should be considered by the Authority on actuals. GHIAL has incurred an amount of Rs 168.15 cr on account of forex fluctuations on ECB against which Authority has allowed Rs 76.35 cr and hence request the Authority to consider the balance Rs 91.80 cr as pass through cost for true up in control period 1.
- g. Authority capped the interest rate for first control period to 12.5% whereas actual interest rate paid on ECB was ~ 7.69%. Without prejudice to our rights of claim of actual forex loss even by considering the decision of the Authority, the eligible forex losses to be recovered should be as per the table below:

Financial Year	Max allowable Fx Losses as per Authority (A)	Total Fx Losses of GHIAL (B)	Recovery allowed to GHIAL as per Authority (C)	Max Allowable ECB Interest [Capped upto 12.5% as per CP1 tariff order] (E)	Actual ECB Interest Paid [7.69%] (F)	Balance Allowable interest G=(E-F)
FY 08-09	14.44	5.79	5.79	63.38	38.94	24.44
FY 09-10	19.56	6.43	6.43	63.38	38.94	24.44
FY 10-11	16.11	8.07	8.07	61.80	38.21	23.59
FY 11-12	20.03	16.76	16.76	58.63	36.26	22.36
FY 12-13	18.64	16.64	16.64	55.46	34.32	21.14
FY13-14	8.38	35.44	8.38	52.29	40.04	12.25
FY 14-15	8.8	37.16	8.8	48.44	34.24	14.20
FY 15-16	5.48	41.86	5.48	43.90	31.60	12.30
Total	111.44	168.15	76.35	447.27	292.54	154.72

The exchange loss suffered by GHIAL on account of principal and interest payment based on the Authority benchmarked RTL is as under (please refer Table 3 of Order No. 34/2019-20);

As can be seen from the above table, loss to the extent Rs 154.72 cr should be allowed as a pass through expense as it is within the permissible cap of 12.5% allowed in the first CP order vis-a-vis partial allowance of Rs 76.35 Cr.

Further, it is observed that the Authority has recouped the gains on account of lower borrowing cost of ECB in initial 5 years (FY09-FY13). Similarly, the loss on account of exchange fluctuations, should also be absorbed under regulatory framework.

In the absence of any clear policy guidelines, it was assumed that the Authority would consider this as allowable opex as the intent of ECB was to optimize the project cost (reduction in IDC) during the construction period and GHIAL had indeed passed on the benefits of lower cost of infrastructure (lower RAB and lower WACC) to the passengers.

Hence we request the Authority to reconsider its stand and allow the forex loss as allowable expenses.

3. Treatment of income from real estate development

The Authority given the scenario of following a 30% shared till (compared to a single till which was followed as per Order No. 38/2013-14), proposes to consider property development as a non-aeronautical activity. Accordingly, the income from property development was used to cross-subsidize airport operations to the extent of 30% and any expenditure associated with these revenues would not be allowed through RAB or Operating Expenses.

Further the Authority has quoted TDSAT Order in case of BIAL "Land lease agreement do not show that land comprising the site was divided into two or more parts so as to confine the area of Airport to a limited extent. Since no such arrangement was made under any of the agreements, the claim of BIAL that there is additional land beyond the airport precincts over which AERA will have no legal Authority of regulation for tariff determination cannot be accepted."

Hence based on the above arguments, the Authority proposes to continue its treatment of income from real estate development as part of non-aeronautical revenue which will be used for cross subsidisation under shared till framework.

Our Response:

As per Clause 10.3 of the Concession Agreement, GHIAL has the power to determine charges to be levied in respect of the facilities and services provided at the Airport or on the Site, other than the facilities and services in respect of which Regulated Charges are levied.

Further, as per Schedule 3 of the Concession Agreement a distinction has been made between Airport Activities which fall under Part 1 and Non-Airport Activities which fall under Part-2. Activities which fall under Part 1 of Schedule 3, fall in the category of Airport Activities which includes both aeronautical and non-aeronautical services and the infrastructure to be created by the airport operator.

However, in Part 2 of Schedule 3, certain Non-Airport Activities which can only be carried out on 'landside' i.e., outside the precinct of Airport. Such activities/services neither fall within the category of aeronautical services nor in the category of non-aeronautical services but are non-airport activities.

As such, the revenues from real estate and commercial development which falls under Part 2 of Schedule 3 of the Concession Agreement and are provided on the landside i.e., outside the Airport and are non-airport activities and as such the same cannot be treated as Non-aeronautical revenue by any stretch of imagination. The proposal of the Authority in this regard to treat the same as non-aeronautical revenue and subjecting the same to cross subsidisation is contrary to concession provisions as well as the land lease agreement executed by the State Government (which forms part of the concession) As per the land lease agreement, the land was acquired not only for the construction of the airport but also to carry out commercial/non-airport activities. Hence, linking the commercial development/non-airport activities to the airport construction is not justifiable and the same is completely outside the purview of regulatory authority. Refer Section 3.1(b) of the Land Lease Agreement

- (b) The Lessee shall also have an exclusive right to develop facilities which are capable of being developed and operated in conjunction with the Airport, including but not restricted to hotels, resorts, flight catering, air craft maintenance, cargo and logistics center, convention center, golf courses, recreational and entertainment facilities, facilities, industrial facilities, fuel farms, terminalling facilities, power plants, storage and processing terminals, water treatment facilities, commercial and residential complexes or such other incidental activities or services provided at the Airport or required for the Airport's customers, agents, contractors or employees, and to undertake any other lawful commercial activity at the Airport.

In this regard, the learned Attorney General categorically opined that non-airport activities should be outside the purview of AERA since AERA is related to only regulation of airports and what is outside the precincts should not be in the jurisdiction of AERA. The Attorney General while addressing "query vii" pertaining to non airport activities to be kept outside purview of AERA has also stated that the preamble of the Act and its provisions clearly show that only the airport is within the sweep of the Act. Additionally, it is pertinent to note that the right to development of real estate and treatment thereof other than aeronautical or non-aeronautical revenue was an independent right granted to the bidder as a concession and has been a part of competitive bidding process which cannot be taken away in an adhoc manner as is being sought to be done by the Authority in the present Consultation Paper.

Further, the state government as per the communication dated 03.03.2011 while furnishing its views on the draft guidelines on economic regulation of services provided by Airport Operators has stated that intention of setting up the airport is for the socio-economic development of the region and any adjustment proposed by AERA would not serve the purpose for which the land was leased out to GHIAL. Relevant extract of the letter:

Setting up the airport in the Greenfield location of Shamshabad was with the intention of socio-economic development of the region and also overall development of tourism and industrial development of the State. Considering these objectives, the land of 5500 acres was leased to the GHIAL for development of airport as well as non-airport activities to suitably incentivize the airport operator without any reference to target equity IRR. Hence any adjustment proposed by AERA would not serve the purpose for which the land was leased out to GHIAL. This was also explained in detail vide last para on page-2 of this Government letter dt.1.3.2011.

Further, the letter of the then GOAP dated 01.03.2011 also stated the following;

" & "

As regards tariff of non airport activities, Article 10(3) of the Concession Agreement gives the right to HIAL or other service providers to set tariff for non airport facilities and services. The Concession Agreement does not envisage cross subsidy of non-aeronautical revenues against the aeronautical revenues. This may be taken into consideration by the authority.

Letter of State Government attached as **Annexure V** for your ready reference
Further, in this regard it is pertinent to mention that Justice R.C Lahoti in his Opinion has held as under:

"2. In view of a categorical differentiation carried out under the Concession Agreement wherein Non-Airport Activities are completely unconnected to the Airport business, the revenues generated though the Non-Airport Activities under the Concession Agreement cannot be considered by AERA to offset cost for the purpose of determining the tariff for Regulated Charges.

4. The value of the land earmarked for Non-Airport Activities (market or notional) cannot be included in or deducted from the RAB and accordingly the revenue generated therefrom cannot be taken into account for cross subsidising the aeronautical tariff for the Airport."

It may be appreciated that the Hon'ble TDSAT in its judgment dated 23rd April 2018 in the matter of AERA Appeal no 6 of 2012 has clearly mentioned that as per the AERA Act also the concessions awarded are to be respected, which in this present consultation paper have been ignored. The relevant portion of the order are reproduced below:

*"(i) In exercise of powers under Section 13 of the Act, **AERA is required to respect rights/concessions etc.** (See Para 31).*

*(ii) **Contractual rights can be voided only on the basis of explicit statutory provisions** or implications from statutory provisions permitting no other option (See Paras 34 and 36)" (emphasis supplied)*

It may be clearly seen that there exists no explicit provision in the statute which debars GHIAL of considering real estate outside the regulatory purview, whereas the concession clearly demarcates it as non-airport activities. Hence, in view of the concession provisions and the aforesaid communication from the State Government, GHIAL request

the Authority to treat the land meant for Non-airport activities as outside regulatory regime.

Further, the reliance placed by the Authority on the letter of GoAP dated 12.02.2014 is not reflective of the concession granted to GHIAL. The earlier communications of GoAP dated 01.03.2011 and 03.03.2011 (copy attached as **Annexure V**) is in line with the Concession Agreement and Land Lease Agreement. The legal opinion obtained by MoCA from the learned Attorney General also endorsed (copy attached as **Annexure I**) the view of the State Government w.r.t. the treatment of land and related commercial and other development thereon as conveyed in **Annexure V**.

The GoI also while signing the concession agreement considered non-airport activity as a separate concession given to GHIAL. It is the same reason due to which even in case of termination of contract in the event of default by GHIAL also the GoI has to pay the value of investment made by GHIAL in non-airport activity in order to acquire asset related to non-airport activity. [Refer clause 13.5.2 of the Concession Agreement]

4. Treatment of dividend and interest income received by HIAL on investment made as well as interest income in general

The Authority has considered the dividend and interest income received from our cargo subsidiary Hyderabad Menzies Air Cargo Private Ltd (HMACPL), as part of cargo revenue. In the similar lines the dividend and interest income from Duty Free subsidiary considered as part of non-aeronautical revenue.

Our Response:

GHIAL would like to submit as under in this regard:

- The investment in the subsidiaries was made by GHIAL and the same is not considered as regulatory asset base for the purpose of tariff calculation. Accordingly, since the investment is outside RAB Boundary any return generated from such investment in the capacity of equity shareholder should also be outside the regulation and regulator.
- The Authority earlier in its Order no. 38/2013-14 correctly considered the dividends outside the regulatory determination in line with the treatment of RAB corresponding to such investments. Accordingly, the Authority did not consider dividends as part of the ARR calculations. Hence, the Authority is requested to keep the dividends outside the regulatory purview.

Further, it may also be pertinent to mention here that the Authority has also considered dividend income accruing to the airport operator outside the regulatory considerations. In this regard reference the attention is invited to Order No. 40/2015-16 dated December 8, 2015 with respect to Delhi International Airport (DIAL) wherein the Authority stated the following:

"6.105.2. since the assets pertaining to the JVs were not being reckoned for the purpose of determination of RAB, the Authority is of the view that the dividend

income accruing to DIAL from such JVs should also not be considered towards cross-subsidization"

The above has been a consistent consideration of the Authority in the previous tariff determination in case of DIAL and GHIAL. Similarly for interest income, Authority was of the view that

".....the interest income generated by DIAL was part of their internal cash flow management and was therefore not considered as part of cross- subsidization"

It has further been observed that the Authority has considered Interest Income in second control period as non-aeronautical in the consultation paper while calculating true-up. This is in variance with the order of the Authority in the second control period. GHIAL would like to submit that the treatment of the Authority on interest income is not proposed on account of the following:

- a. Interest income is generated out of the liquidity which is retained in the business to ensure sustainability of the business. Had the entire profit been dividend out to shareholders, GHIAL would not have earned interest income, however, it would make the organization vulnerable to external factors that are beyond its control like the prevailing COVID-19 situation. It may be appreciated that, we are able to address the COVID related challenges and operational losses due to prudent liquidity retention policy of the business. Hence the Authority should encourage the airport operators to retain cash in the business to ensure continuity of operations and should not disincentivize by cross subsidizing 30% of such interest income.
- b. GHIAL over the period has invested in subsidiaries to build an eco-system around RGIA and actively played the role of project proponent and anchored several initiatives by not remunerating its shareholder through payment of dividend.

The concession agreement made clear distinction of what constitute regulated business and non-airport business. Hence GHIAL undertook the business risk and investment risk to promote business which are outside regulation. The dividend received by GHIAL is in the capacity of shareholders on account of assuming such business and investment risk and hence rightfully be outside Regulatory Till. The case in point is cargo concession which was operated under JV structure, wherein the dividend received by the JV partner is outside Till but in case of GHIAL this forms part of Regulatory Till as per the treatment proposed by the Authority. This is not proper from the principles of equity. Hence we request the Authority to not consider the dividend income on investment in subsidiaries under the regulatory purview.

- c. The other way to earn treasury income is due to the mismatch if any in terms of revenue earned. It is observed that while truing up the under or over recovery in following control period, the Authority considers the over or under collection with time value or at carrying cost of WACC. This inter-alia means that the Authority has considered any potential interest on the surplus during the control period with a rate of WACC. Such interest relates to the investment which can be made from the surplus amount at much higher rate as compared to the actual

and is also considered 100% aeronautical in nature. This may be seen from the consideration of the Authority in the calculation of surplus of CP 2 at table 63 where the surplus amount of Rs 1301 Crores has been considered with WACC value to be at Rs 1976 Crores which means an additional Rs 675 Crores of income has already been considered by Authority/ Considering the actual treasury income over and above the present value of the surplus would therefore lead to double accounting of the same income.

- d. Hence the Authority should encourage the airport operators to retain cash in the business to ensure continuity of operations and should not disincentivize by cross subsidizing 30% of the interest income. Accordingly, GHIAL request the Authority not to consider interest income for the purpose of cross subsidization.

5. Cross subsidisation of 30% of Non-Aeronautical PBT under shared till

The Authority has noted the submission of HIAL for considering the non-aeronautical PBT as cross subsidy for computing the Aggregate revenue requirement (ARR). The Authority is of the opinion that only 30% of non-aeronautical revenue is used for cross subsidy under shared till model, the Airport Operator gets to retain the balance 70% of non-aeronautical revenue.

Subsequently, the Airport Operator should bear the expenses pertaining to the non-aeronautical activities as most of them are being incurred by the concessionaire engaged for it. Further, the usage of 30% of the gross non-aeronautical revenues towards cross subsidization purpose is uniform across the airports under the purview of the Authority. The said treatment is also in line with the agreements such as OMDA, SSA etc. pertaining to DIAL and MIAL.

Hence, the Authority does not agree with HIAL to allow for 30% non-aeronautical PBT for cross subsidizing the ARR. The Authority proposes to continue using 30% non-aeronautical revenue for cross subsidising under shared till framework.

Our Response:

Authority has applied the decision of its Order No. 14/2016-17 on Adoption of "Hybrid Till", wherein 30% of non-aeronautical revenues will be used to cross-subsidize aeronautical charges, in the case of HIAL

In this regard GHIAL would like to state that

- a) Authority in its Order No. 14/2016-17 on adoption of Hybrid Till has relied on ICAO guidelines on Shared Till Philosophy and stated that a portion of surplus generated from non-aero revenues should be shared with the airlines and other users and not retain the entire surplus.

ICAO guidelines states that "*reaching a common understanding on the contribution of non-aeronautical revenues to defray the cost base for charges is an acknowledgement of the partnership between airports and users*". This clearly means that the non-aero revenues in the airport should be shared between the airport operator and the users. The airport operator and the airlines should come to an understanding on who gets how much of the surplus generated from non-aero revenues. The intention here seems to be that the airport operators who collect these revenues should share a portion of it with the airlines and other users and not retain the entire surplus. The ICAO guidelines therefore indicate a preference for a 'Hybrid till' rather than a 'Single Till'/'Dual Till'. (emphasis supplied)

- b) Also, as per Order no 13/2010-11 "In the matter of Regulatory Philosophy and Approach in Economic Regulation of Airport Operators":
Relevant extract from Para 5.18 to 5.24 (emphasis supplied)

"5.18 It is important to recognize the context in which ICAO uses the terms "cost relatedness" and the related concept of "cross subsidy". ICAO speaks of cost relatedness in the context of charges for aeronautical or regulated services. This implies that according to ICAO guidelines, one regulated service should not be cross subsidized from other regulated service. It is important to bear in mind that ICAO does not use the term "cross subsidy" in the context of surpluses from non-aeronautical revenues to be used to moderate charges for aeronautical services. Infact as subsequently discussed, ICAO encourages contribution from non-aeronautical revenues towards aeronautical charges.

5.19 Regarding cost relatedness, ICAO clearly states that non-aeronautical revenues are generated by passengers and hence they should benefit from the non-aeronautical surpluses.

5.20 For sake of clarity, the relevant portion of Para 30 of ICAO Doc 9082/8, (2009) is reproduced below;

.... The Council also states that in determining the cost basis for airport charges the following principles should be applied:

(i) The cost to be shared is the full cost of providing the airport and its essential ancillary services, including appropriate amounts for cost of capital and depreciation of assets, as well as the costs of maintenance, operation, management and administration, but allowing for all aeronautical revenues plus contributions from non-aeronautical revenues accruing from the operation of the airport to its operators (Emphasis added).

5.21 Authority thus notes that ICAO's guidelines speak of "contributions from non-aeronautical revenues accruing from the operation of the airport to its operators". Common reading of these words would indicate that whatever contributions from non-aeronautical revenues accrue to the Airport Operators should be taken into account for determination of aeronautical charges."

It is also important to refer to the White Paper on Regulatory Objectives and Philosophy in Economic Regulation of Airports and Air Navigation Services issued by the Authority

in December 2009, wherein the Authority has listed out certain major issues impacting formulation of a regulatory philosophy. In this regard, the Authority while laying down the philosophy for Single till has stated that single till uses profits from non-aeronautical activities at an airport to offset the aeronautical cost base for determining airport charges. Therefore, even as per the Authority's own Regulatory philosophy only non-aeronautical revenue, after deducting all costs associated with it, should be used for the purposes of cross subsidization.

In this regard we seek to place reliance upon the opinion dated 08.07.2017 rendered by Shri Yashwant Bhawe Ex- chairperson of the AERA has opined that:

"In Hybrid till all the costs associated with generating the non-aeronautical revenue (as maybe defined in a given agreement) are subtracted from the non-aeronautical revenue and the net result is used to compute the amount of cross-subsidization towards aeronautical charges. Hence, a part of the non-aeronautical revenue (after netting of the costs associated with generating the non-aeronautical revenue) is so to say "shared" with the aeronautical revenue (also likewise netted) and aeronautical charges determined accordingly. "

A copy of the opinion dated 08.07.2017 issued by Shri Yashwant Bhawe is annexed herewith as **Annexure VI**.

Also, as per provisions of the CA, only the Regulatory Charges as mentioned in the Schedule 6 are to be determined by AERA consistent with ICAO policies but not on the cross subsidization.

In view of the above, GHIAL requests the Authority to determine tariff based on the philosophy of shared/hybrid till wherein all the costs associated with generating the non-aeronautical revenue are subtracted from the non-aeronautical revenue and the net result is used to compute 30% cross-subsidization towards aeronautical charges.

6. Cost of Equity

The Authority had examined the arguments made and reports submitted by stakeholders recommending a higher cost of equity that is commensurate with the operational risks of the aviation sector and also ensures an appropriate return to investors in the Second Control Period. However, the Authority had observed that similar arguments had been made by stakeholders including HIAL in the First Control Period and also reiterated in HIAL's MYTP submission for the Second Control Period and now the Third Control Period as well. The Authority had analysed the arguments and reports in detail and already responded to the same in its Order No. 38/2013-14 for the First Control Period.

Additionally, order of Hon'ble TDSAT for BIAL has supported the Authority's decision in the matter of considering the cost of equity based on its own computation and that it requires no interference. The excerpt from the said order is as given below:

51.' On a careful perusal of the chart depicting Project IRR for claiming state support through SSA, it is found that there was no agreement or contract between the parties to which MoCA would have been necessary, to guarantee equity return of 21.66% or any fixed return on equity.

The charts were to work as models for understanding the need/quantum of state support claimed by BIAL. The model and the figures for its formulation do reflect the understanding of BIAL on Project IRR but that cannot amount to an agreement between the concerned parties, particularly MoCA on the fair return on equity. It is not guaranteed or promised in the terms of any agreement between the concerned parties, be it the Concession Agreement or the SSA. This claim of BIAL is not found acceptable.

In Para 13.4.9 of the tariff order the Authority has correctly concluded that the equity IRR of 21.66% is not specified either in the Concession Agreement or in the SSA. The decision of AERA on this issue requires no interference.'

Hence, taking these facts into consideration, the Authority proposes to maintain its stance of considering cost of Equity as 16% for both First and Second Control Period.

Our Response:

We request the Authority to consider expert report of M/s Jacob Consulting which has after analysing the parameters specific to GHIAL has proposed a Cost of Equity of 24.2%. A copy of the report of M/s Jacobs Consulting is annexed herewith as **Annexure VII.**

The Authority has sought to continue the Cost of Equity of 16% basis the First Control Period which inter-alia has relied upon the NIPFP Report. In this regard, we submit the reliance on NIPFP Report is misplaced as NIPFP has no previous credentials for determination of Return of Equity and further, NIPFP has not been appointed as an expert as required under the provisions of the Act. Also, the parameters adopted by NIPFP in its report are flawed and not specific to Indian airport sector.

Without prejudice to our claim of 24% for Cost of Equity, we place reliance on the reports of SBI Capital Markets Limited, who was appointed by MoCA (as the policy making authority) for the purpose of determination of ideal cost of equity for airport sector/operators and whereby SBI Cap recommended CoE of airports in the range of 18.5% to 20.5%. It is also relevant to note that, unlike NIPFP Report, the SBI Cap Report has adopted the parameters specific to the Indian airport sector and therefore is more relevant as expert evidence. GHIAL submits that due credence should be given to the report of SBI Capital Markets, which was an independent study commissioned and engaged by the Government of India, Ministry of Civil Aviation.

Further, for the third control period GHIAL had submitted an independent study by CRISIL Limited which recommended cost of equity ranges between 20.34% to 23.80% for GHIAL. This study is specific to GHIAL based on the Capital Asset Pricing Model and considers the risk-free rate in India, the appropriate risk premiums and comparable airport betas.

Further, without prejudice to our claim of 24% of cost of equity, we would like to draw the attention of the Authority to the State Support Agreement with erstwhile GOAP assures that the project shall provide equity internal rate of return of 18.33%.

Hence, GHIAL request the Authority to consider Cost of Equity at least as recommended by SBI Caps for the purpose of determination of FRoR. A copy of MoCA letter

(Annexure VIII together with SBI Caps Report is annexed herewith as (Annexure IX).

GHIAL once again requests the Authority to adhere to the specific concessions granted by the central government to GHIAL under the CA relating to the issues i.e. treatment of CGF, Real Estate development, Forex Losses, Treatment of Dividend and Interest Income, Philosophy of shared/Hybrid till and Cost of Equity as explained above as the investment decision was made based on those contractual provisions. Departure of the treatment on these contractual provisions shall be contradictory to the provisions of the CA as well as AERA Act and shall jeopardise the interest of the shareholders and debt providers.

7. Other Principal Issues

i. CSR and Donations:

The Authority has looked into the matter of allowing Expenditure on Corporate Social Responsibility (CSR) as a pass through based on the TDSAT's judgment dated December 16, 2020 in the matter of Bangalore International Airport Limited vs. Airports Economic Regulatory Authority of India which is as follows:

"Hon'ble TDSAT held that there is no difference between CSR expenditure mandated by law and an expenditure in the nature of income tax which is allowed as a cost pass-through. It reasoned that not allowing such cost would amount to indirectly lowering the percentage fixed as a fair return on equity, as the CSR expenditure would be apportioned from the return allowed to equity holders. TDSAT therefore set aside the decision of AERA and directed it to pass relevant orders so that reduction in determined fair return does not cause loss to equity holders due to CSR expenditure. It further directed AERA to conduct the necessary true-up exercise"

Based on this judgment, the Authority has decided to true-up the expenditure towards CSR derived based on aeronautical profit & loss statement as per the Authority's computation.

Our Response:

CSR spent was mandated by the statute and hence this mandated spent has affected the regulated and determined fair return on equity. GHIAL would like to draw attention to the operative part of the TDSAT Order in relation to CSR

"There is no difference between expenditure towards CSR once it is mandated by law vis-à-vis an expenditure in the nature of income tax which is allowed as a cost pass-through. Not allowing such cost amounts to indirectly lowering the percentage fixed as a fair return on equity, because if the impugned decision of the Authority is accepted, the expenditure towards CSR has to come out from such return allowed for the equity holders. In view of the above discussions, the grievance of BIAL in respect of expenditure on CSR is found to have merits.

The impugned decision on this issue is, therefore, set aside. The Authority shall pass consequential orders so that no loss due to reduction in determined fair return is caused to the equity holders on account of expenditure on CSR. Necessary truing-up exercise shall be done by the Authority accordingly.”

Based on the above pronouncement it can be inferred that the intent of the order is to preserve the return on equity to airport operator which has been affected due to a CSR activity. Further, as a responsible corporate citizen we also work for amelioration in the living conditions of the people in and around the airport villages. The CSR activity of GHIAL is centred around 3 major themes:

a. Education

GHIAL through its CSR arm works extensively with 12 Govt school located in 6 villages reaching out to more than 500 students to improve their learning levels through various interventions, e.g., provide additional teachers, after school session, special sessions for slow learners and basic infrastructures like, benches, computes etc. Also run gifted children program wherein the education requirements till under graduation level of meritorious under-privileged children are taken care of and currently 121 such students are enrolled under the said program

b. Health Care

GHIAL run mobile medical unit for people in 23 villages and carry out 20,000 treatments every year. GHIAL also run 7 evening clinics in the villages extending 10,000 treatments every year. Conduct 3 nutrition centres for pregnant & lactating women for a period of 1 year from their 3rd month of pregnancy. 200 such women are availing the facility. Also set up 2 nos. RO water plant which is serving the requirement of 750 families.

c. Empowerment & Livelihood

GHIAL impart vocational training centres directly benefiting 1,000 youths in collaboration with industry leaders and make them job ready with 80% placement. Women empowerment is one of the key focus areas of GHIAL-CSR and as part of this, women groups from villages have been trained on tailoring, jute and paper products, chocolate making, garment making, etc.

To further support the women in marketing these products, an initiative called EMPOWER (Enabling Marketing of Products of Women Entrepreneurs) has been initiated by GHIAL CSR

The above initiatives have helped GHIAL to have collaborative arrangements with its stakeholders and developed mutual trust and respect.

Since CSR is allowed by the Authority only on aeronautical profit and as there is no aero profit as per regulatory determination GHIAL is unable to recover the amount spent on CSR despite this being an integral part of operations at the

airport. Hence, GHIAL request the Authority to treat CSR and donations as aeronautical opex given the overall context of spent which is driven by the objective of taking the society along and make them grow as we grow. Any under-recovery of CSR spent shall negatively affect the fair return on equity.

By adopting the notional approach of AERO P&L Authority has just find a way to reiterate its earlier position of not providing CSR. Authority should adopt similar approach as they did in case of tax. Authority in case of allowance of tax has considered the actual amount of tax paid by the company and allocated the same into aero and non-aero PBT ratio. Authority should consider the same approach in case of CSR, the actual amount paid towards CSR should be allocated in the ratio of AERO and Non-Aero PBT. This approach will provide consistency approach towards allocation of taxes as well as CSR.

Else the Authority may consider the unabsorbed CSR & Donations be deducted from non-aeronautical revenue and cross subsidization shall be allowed on the balance amount of non-aeronautical revenue. This will comply with the spirit of the TDSAT judgement.

ii. Treatment of Cargo Satellite Building

The Authority in its Order No. 34/ 2019-20 had observed that the Cargo Satellite Building ("CSB") was being used as an administrative office for the staff of freight forwarders and some portion of the building was also being used as a storage/warehouse for cargo parcels. Since the building was being used to undertake cargo related operations related to the cargo handling at the airport, it was proposed to be treated as an aeronautical service in line with the treatment of cargo services as decided by the Authority in the previous chapter and hence all building blocks related to CSB have been accorded the treatment of aeronautical services.

Our Response:

As regard to the offices for freight consolidators/forwarders or agents at cargo complex are classified as non-airport activities under schedule 3 - Part 2 of Concession Agreement and are provided on the landside i.e. outside the Airport cannot be treated as Non-aeronautical revenue and the same is outside the purview of the Authority. The relevant provision of the concession is reproduced herein below for ready reference:

SCHEDULE 3: PART 2 – NON-AIRPORT ACTIVITIES

Landside Non-Airport Activities include the following services, facilities and equipment:

Offices for freight consolidators/ forwarders or agents at cargo complex, offices for airlines

Bus terminal for local and regional buses, Airport shuttle transport services (hotels, city centre, etc.)

Business parks

Airport hotels, restaurants, conference venues, meeting facilities, business centres, trade fairs, real estate, theme parks, amusement arcades, golf courses, sports facilities, banks and exchanges and shopping malls

Commercial buildings / complexes/ entertainment complexes/ tourist related activities

Independent power producing plants for emergency supply may be established in connection with business parks

Viewing point (at an existing hilltop) with parking, access and small food and beverage facility

Any other revenue generating activity related to the development of the Site or of the Airport in relation to Non-Airport Activities

The Cargo Satellite Building (CSB) at RGIA has been built as an innovative solution for providing Office and warehousing space as a trade facilitation measure.

The activities performed in CSB can be broadly classified and explained as:

1. Warehousing: The CSB serves the purpose of transit warehousing for various companies without having any restrictions on reserving space only for the purpose of Air Cargo. Since the Airport is at a convenient location in terms of connectivity, the CSB warehousing space is utilized by many companies for the purpose of storing transit cargo through ICDs as well as for Domestic distribution through road networks which are Non airport activities in nature.
2. Office Space: Currently there are various companies, who are in no way related to Air Cargo, but have utilized the location with proximity to the Airport as an advantage and set up their base at the CSB as mentioned earlier. For example, Notified Area Committee, which provides Building Plans approval for any construction at the Airport.

This facility is set up by GHIAL as it wanted to create an enabling infrastructure which could have been set up through concession by GHIAL. The stated facilities even otherwise do not form part of Cargo activities as has been contended by the Authority. Hence, in terms of the concession and the nature of service, GHIAL request the Authority to treat Cargo Satellite Office Building (CSB), outside regulatory till.

iii. Treatment of vehicle Fueling Stations

The Authority would like to re-iterate that the fueling station is providing service which is incidental to aircraft operations since these vehicles are necessary to support the operation of aircraft services, cargo and passenger services, emergency services, and maintenance of the airport and hence, qualify as an aeronautical service. Hence, the Authority proposes to include vehicle fueling service as aeronautical service and therefore all building blocks related to

vehicle fuelling service have been accorded the treatment of aeronautical services

Our Response:

Vehicle Fuelling service is provided by BPCL at RGIA to fuel the vehicles that ply in the airside. Additionally, BPCL runs another fuel station which is located on the landside/city side. The landside service don't form part of the core activity of the airport, this fuelling station provides fuel to the vehicle plying to and from airport and serving customers which are not necessary to be users of the Airport. As per section 2 a (vi) the fuelling service is aeronautical in case it is supplying fuel to the aircraft:

For supplying fuel to the aircraft at an airport

The Vehicle fuelling station is not supplying fuel to the aircraft hence it cannot be considered as part of aeronautical service. The definitions in the AERA Act read with the concession are inclusive and cannot be expanded to any other services. Further, the transaction with GHIAL is only for space rent with the fuelling station and cannot be construed as a fuelling service.

Hence, GHIAL requests the Authority to consider the classification as per AERA Act read with the concession for fuel station and consider the revenues as non-aero.

iv. NOB (New Office Building):

The following treatment has been proposed to be considered by the Authority for allocation of NOB assets for the First Control Period and the Second Control Period as per Table 6 of the consultation paper:

The percentage of floors usage has been considered as the driver for NOB. Prior to 2014-15, two floors of NOB GHIAL are used by HIAL employees for both aeronautical and non-aeronautical purpose and remaining three floors are not being utilized by HIAL 2015-16 onwards. The usage of NOB is categorized as 60% non – aeronautical and 40% common for FY 2008-09 to FY 2014-15 consistent with the previous tariff orders. FY16 onwards, since three floors of NOB are used by HIAL employees for both aeronautical and non-aeronautical purpose and remaining two floors are not being utilized by HIAL, usage of NOB is categorized as 40% non - aeronautical and 60% common for the Second Control Period as well as the Third Control Period. The building blocks pertaining to NOB will be accorded the same treatment for purpose of tariff determination in this Consultation Paper.

Our Response:

The new office building at RGIA is the corporate and administrative head quarter of GHIAL and the key staffs are deputed here to discharge the functions.

With increase in operations of airport, the staffing requirement has gone up and GHIAL presently occupying three floors for its own staffing requirement and opportunistically leased out the balance two floors, which would be gradually occupied as the operations expand. We would request the Authority to treat NOB in line with Terminal building and then allocate based on aero: non aero asset ratio.

Authority allocation of NOB assets into 60% non-aero and 40% common till FY15 and 40% non-aero and 60% common based for FY 16 onwards is not proper as GHIAL has rented out the vacant floor to third parties only for temporary usage and for opportunistic utilisation of resources till such time it is not completely used internally.

GHIAL would like to inform that usage of NOB by GHIAL will increase significantly post the deployment of additional manpower in FY22 and FY 22 on account of expansion and will be utilised 100% for company's operations.

The treatment of NOB assets by the Authority based on its current occupancy is not proper. The classification of assets should not change based on its usage. The Authority is requested to consider the assets as common and allocation should be made accordingly.

v. Site Office Building:

Authority has allocated the building blocks pertaining to Site Office Building as common for purpose of tariff determination in the consultation Paper based on the area utilization. The Site Office building is divided into common and the area utilization is calculated each year for purpose of arriving at actual utilization and then allocated into aeronautical and non-aeronautical.

Our Response:

Site office building is used for various common services like IT room, Record room, Staff canteen, parking, auditorium, Store rooms and training halls. Balance space, pending utilisation, has been leased out to third party on availability basis. Hence, we request the Authority to treat site office building assets as common assets.

vi. Township:

Authority has proposed to allocate the building blocks pertaining to Township based on critical staff ratio as aeronautical and remaining as non-aeronautical for purpose of tariff determination in the consultation Paper. This ratio is calculated every year based on actual occupancy.

Our Response:

Employees are provided accommodation in township to have quicker responses management in case of emergency or to continue to operate the airport in case of a disruption in the city. Employees are housed in township to ensure smooth operation of the airport as the airport is away from the city. GHIAL has built the township keeping in mind the long-term usage and hence the occupancy of township is gradual and shall increase with elevated level of activity. Hence allocation based on occupancy is not a right benchmark and request the Authority to consider township as aero assets based on its intended purposes or at best be allocated on common asset ratio.

vii. Landscaping

Authority has observed that landscaping is not integral to airport operations in general and hence proposed to be treated as common. All building blocks pertaining to landscaping are proposed to be treated as common for purpose of tariff determination of this consultation Paper.

Our Response:

Landscaping is an integral part of customer experience at the airport campus. The overall customer experience depends a lot on ambience at the airport campus and accordingly GHIAL has treated landscaping as aeronautical expenses. Also, the Authority in the past as well as in recent consultation paper of similarly placed airports, considered landscaping as aero expenses for other airports. Hence, we request the Authority to be consistent and consider landscaping as aero expenses.

viii. Opex allocation for Guest Relations and IT cost centers

Authority has considered the expenses pertaining to guest relation and IT cost centres as common as per the independent study.

Our Response:

IT expenses are primarily pertaining to Airport operation and should be considered as aeronautical expenditure. IT O&M contracts are primarily composite contracts for maintenance of all IT services and works at the airport.

Expenses accounted under the guest relation cost center includes costs relating to management and facilitation of certain category of passengers passing through airport terminal and guest relation is integral part of Airport operations. Hence, we request the Authority to consider cost related to protocol services as aero.

Summary of submission on Principles Issues with the Authority for fresh consideration

Particulars	GHIAL Submission on Treatment	Basis of submission on Treatment
CGF (including GPU, ICT)	Non-aeronautical	Provisions of Concession Agreement, AERA Act, AG opinion, SG opinion and Expert Opinion. The airport activities and regulated charges are two distinct issues and should be viewed as decoupled.
Forex Loss	Pass through opex	ECB was availed to optimize the overall cost of borrowing; while the Authority recoups the benefits of lower cost, the loss is not considered as pass through fully which is against the spirit of principles of equity.
Income from Real Estate Development	Outside Regulatory Till	To be viewed based on land lease agreement, State Support Agreement and GOAP earlier communications on the matter.
Treatment of Dividend and Interest Income	Outside Regulatory Till	Since the assets of the subsidiaries are not forming part of RAB any income arising out of investment activity should be outside Regulatory Till. Interest Income arises on account of deployment of surplus money retained in the business by depriving the shareholders by not paying dividend with the sole intent to make business prepared for uncontrollable shocks, ensures sustainability and prepare for undertaking infrastructure development on need basis.
cross subsidisation of 30% of Non-Aeronautical PBT under shared till	Cross subsidization at PAT level	ICAO principles of cost relatedness in generating non-aeronautical revenue should be considered to determine the contribution for Shared Till.
CSR and Donations	Aero expenses	To protect the regulated return on equity in accordance with the TDSAT Order
CSB	Non-Airport Activity	In line with the place of services delivered
Vehicle Fuelling Station	Non aero and Non-Airport Activity	In line with the nature of service and the place of services delivered
NOB	Common Assets	NOB is used as corporate office of GHIAL and hence to be treated as common assets.

Particulars	GHIAL Submission on Treatment	Basis of submission on Treatment
SOB	Common	To be allocated on overall common asset ratio.
Township	Aero Assets	Township is meant for critical staffs deployed at operations as well as various support functions and hence to be treated as aero assets
Landscaping Department	Aero	In line with treatment at other Airports
IT Department	Aero	Critical for Airport Operations
Guest Relation Department	Aero	Integral part of airport operations required for facilitation of certain category of passengers passing through airport terminal

III. TRUE-UPS FOR PRE CONTROL PERIOD AND 1ST CONTROL PERIOD

1. Pre Control Period Entitlements:

The Authority stated that while it had initially proposed to consider the Pre Control Period Entitlement for the period since commencement of airport operations i.e. 23.04.2008 to 31.03.2011 (inclusive of carrying costs) as per Proposal No. 1.a under section 4 of the Consultation Paper 09/2013-14, it finally decided to revise the Pre Control Period duration to nineteen months starting from 1st September 2009 i.e. after the Authority came into existence as per Decision 2.a under Section 5 of Order No. 38/2013-14.

The Authority further notes that the Hon'ble TDSAT vide its order dated March 04, 2020 ("HIAL TDSAT Order"), held that the issues that are surviving should be remitted back to AERA for its fresh consideration and adjudication. The TDSAT Order also stated that "While deciding the remitted issues AERA should keep its views open so that the issues are decided fairly and in accordance with law without any prejudice on account of the earlier litigation or this judgment and order." The Authority also notes that all remitted issues have been decided by Hon'ble TDSAT on merit in BIAL order dated December 16, 2020.

Based on the judgment of Hon'ble TDSAT in the HIAL Order and based on the similar view and direction given by the Hon'ble TDSAT in the BIAL Order, the Authority proposes to revisit the entitlement of balance period of PCPE and provide for the same. The Authority proposes to consider the entire PCPE period (01.04.2008 – 31.03.2011) for the purpose of the true up exercise during the Current Control Period

Our Response:

a. PCP entitlement ignored for the period 23rd March 2008 to 31st March 2008

We agree with the Authority's proposal to consider the entire PCPE period (23.03.2008 – 31.03.2011) for the purpose of the true up exercise during the Current Control Period. However, we would also like to submit that the operations of GHIAL started on March 23, 2008 which is recognized by the Authority in Section 2.2.2 of the Consultation Paper and hence request the Authority to consider the PCPE for 9 days for FY08 based on the same principles on which PCPE for FY09-10 is considered:

Asset Allocation Ratio	92.64%
Overall Opex Allocation	84%
WACC	10.02%

Without prejudice to our rights to CGF being non-aeronautical and other issues listed in the previous segment of this response, for the limited purpose of alignment of regulatory approach in the consultation paper, GHIAL has

considered the treatment of building blocks for this period as per proposed decisions of the Authority.

The regulatory building blocks for the period of 9 days is as under:

Particulars	Rs. Crs
Return on Capital Employed	5.28
Operating Expense	49.86
Concession Fee	0.15
Depreciation	2.38
Taxes	0.00
Gross Target Revenue	57.70
Cross Subsidization	1.98
Aero Revenue Eligibility	55.72
Less: Actual Aero Revenue	3.90
Total Deficit – Absolute Value (for the period 23rd Mar'08 to 31st Mar'08)	51.82

The Audited Financials (**Annexure X**) and the excel computations are enclosed for the consideration of the Authority as **Annexure XI**

b. Calculation error for the PCP eligibility for the period 01.04.2008 to 30.09.2009

Additionally, GHIAL would like to highlight the arithmetical inaccuracy while computing PCPE for FY2010 followed from previous control period. The approach of calculation of PCPE needs to be revisited from building block perspective as there was no prior determination whatsoever. As per building block approach Authority should consider only ARR deficit/surplus for the purpose of true up. Accordingly, in case of FY'10 & FY'11 the ARR deficit was Rs. 111.07 Cr and Rs. 49.88 Cr respectively. The same amount should be allowed as true up.

Pre-control Period Entitlements – Rs. Cr	2009	2010	2011
As per CP2 Order No. 34/2019-20			
Return on Capital Employed		197.66	192.38
Total Expenses (Incl. Concession Fee)		169.24	196.76
Depreciation		102.67	105.00
Tax		0.00	0.00
NAR Cross-Subsidization		-28.61	-32.23
Average Revenue Requirement		440.96	461.90
Less: Actual Aero Revenue		-329.89	-412.02
Revenue Deficit		111.07	49.88

Authority while allowing PCPE true up has carried forward the trueup allowed in CP2 order "as is" and balance is provided in CP3. Hence the combined true-up of Rs.81.32 crores is incorrect which is considered as per Table 3 of the Consultation Paper of the Authority. The correct figure is Rs.41.72 crores as can be seen from Table 12 of CP2 Tariff order no 34/2019-20 (given below)

Table 12: Pre- Control Period deficit (losses) in respect of HIAL as considered by the Authority for the 2nd Control Period in the 2nd Control Period tariff order

Pre-control Period Entitlements – Rs. Cr	FY2009 -10	FY2010-11	Aggregate Pre -CP
As per Order No. 38 under Single Till (a)	39.6	-3.09	36.51
As per actuals			
Return on Capital Employed (b)	197.66	192.38	390.03
Total Expenses (Incl. Concession Fee) (c)	169.35	196.81	366.16
Depreciation (d)	102.67	105.00	207.67
Tax (e)	0.00	0.00	0.00
NAR Cross-Subsidization (f)	-28.67	-32.28	-60.95
Average Revenue Requirement (g)= b+c+d+e+f	441.00	461.90	902.90
Less: Actual Aero Revenue (h)	-329.89	-412.02	-741.91
Annual Deficit (Pre- control Period Entitlement (i= g+h))	111.12	49.88	161.00
True up (considering 7 months in FY2009-10 and FY2010-11)	41.72	52.97	94.69
Discounting period	-8.30	-7.30	
PV of True up	92.23	106.43	198.65
Total True ups as on 01-01-2018	198.65		

Hence, the incremental true-up works out to Rs 36.52 crores as given in the table below:

Revised Entitlement (Basis CP3 assumptions) – Rs. Cr	2009	2010	2011	Total
Return on Capital Employed	201.15	197.66	192.38	
Total Expenses (Incl. Concession Fee)	191.52	169.24	196.76	
Depreciation	98.66	102.67	105.00	
Tax	0.00	0.00	0.00	
NAR Cross-Subsidization	-27.04	-28.61	-32.23	
Average Revenue Requirement	464.3	441	461.9	
Less: Actual Aero Revenue	-289.98	-329.89	-412.02	
Revenue Deficit (A)	174.3	111.1	49.89	
Authority Considered in CP2 Tariff Order & allowed separately in CP3 (B)	0.00	41.72	52.97	
Revised True-Up (A-B)	174.3	69.35	-3.08	240.6
True up as per Consultation paper	174.3	29.75	0.00	204.1
Incremental true Up	0.00	39.60	-3.08	36.52

Revised True-Up (PV as on 31.03.2011)	211.00	76.29	-3.08	284.20
True up as per Consultation paper (PV as on 31.03.2011)	211.00	32.73	0.00	243.72

Incremental true Up (PV as on 31.03.2011)		43.56	-3.08	40.48
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2. ADFG Assets:

It is observed that the Authority has deducted an amount of Rs.107 crores received from erstwhile GOAP in the form of Advance Development Fund Grant (ADFG).

Response:

The treatment of ADFG by the Authority is at variance with its earlier Order No. 38. given below:

“11.28.The Authority notes that the funds granted by GoAP have not been earmarked by GoAP for any particular class of assets and thus it is not possible for the Authority to earmark specific asset class to be reduced from RAB on this account”. Based on this the ADFG of Rs. 107 Cr should be proportionately excluded from aero and non-aero assets along with corresponding depreciation.

It would be pertinent to mention that ADFG was granted to fund the Airport construction and both aeronautical and the non-aeronautical assets are an integral part of airport construction (please refer SSA) and combined offerings are inseparable part of overall passenger service delivery.

The ADFG received by GHIAL was for the initial phase of construction hence should be reduced from the overall assets block and not from aeronautical RAB only. Further, the Authority may recall that the concession of RGIA was granted on the basis of bidder seeking minimum government assistance/support to build the infrastructure and accordingly ADFG quoted by GHIAL was towards building the airport infrastructure. Hence, removal of grant from only aeronautical asset block is not in line with the purpose for which grant was given by the State Government.

Hence GHIAL request the Authority to align the treatment of ADFG in line with its earlier Order and proportionately reduce from aero and non-aero assets block.

3. Authority’s examination of the matters of true up of Tax for the first control period as part of tariff determination for the Current Control Period

It has been observed that the Authority has computed Aeronautical P&L without considering cross subsidization of non-aero Revenue. This approach defeats the very purpose of Regulation wherein the economic and viable operations of the airport is enshrined. The ICAO principles of cost relatedness of the revenue arising out of non-aeronautical functions as elaborated in the preceding section of the submission needs to be adhered to.

In accordance with building block approach, Authority subsidizes the aero eligibility of GHIAL calculated as per building block by 30% of revenue from revenue share assets. In other words some part of the aeronautical revenue is expected to be recovered through cross subsidy from revenue from revenue share assets. However, while determining tax Authority has not considered this 30% of revenue.

TDSAT in case of MIAL appeal no 4 of 2013 against the CP1 order of MIAL in its order dtd. 15th Nov'2018 at para 15 opined that:

"...by the provision in the Agreement, 'S' is an element of revenue on aero side and by the same yardstick must be added while calculating the 'T'. We find some merit in these arguments.."

Accordingly TDSAT vide Judgment at Para 41(i) remanded the matter of considering the S-Factor as part of revenue in calculation of tax, to AERA.

The Authority should consider the S-Factor in consideration for aeronautical tax for DIAL. Since, this is the issue of settling principle under the SSA the effect of such consideration should be taken from the first control period itself.

Accordingly, GHIAL request Authority to kindly take positive view on the subject matter.

As per the Consultation Paper of the Authority, the Aeronautical PBT for the control period is minus Rs 89.37 crores stating that the airport operator despite having invested so heavily in the regulated business failed to earn minimum return and for survival it has sole reliance on non-aeronautical revenue. Further, the absorption of the significant proportion of tax payment by non-aeronautical segment is not proper when aeronautical business contributes ~70% of the revenue. Hence GHIAL request the Authority to consider the cross subsidization of non-aeronautical revenue while drawing up Aeronautical P&L for all statutory levy, i.e., Tax payments and CSR.

Further, the actual tax paid by GHIAL is the minimum alternate tax paid on account of available benefits under 80IA of the Income Tax Act. Authority has in a way considered a lower tax into the building block (allocated in the ratio of respective taxes as per Aero and Non-Aero PBT) and hence denied the statutory benefits of section 80IA being made available to the company for investing in infrastructure development.

Tax payable based on the aeronautical taxable income computed as per the normal provisions of the Income Tax Act, 1961 should be considered as pass through tax in place of allocation of actual MAT paid by the company

Hence, we request the authority to consider 30% of non-aeronautical revenues for drawing of aeronautical P&L and calculate the eligible aero tax as per the normal tax provisions (instead of absorbing the benefits of 80IA) to protect Fair Rate of Return on Equity

4. Other Key Principle Points:

GHIAL request the Authority to consider the following based on the detailed submission given in the preceding section of the response:

Particulars	GHIAL Submission on Treatment	Basis of submission on Treatment
CGF (including GPU, ICT)	Non-aeronautical	Provisions of Concession Agreement, AERA Act, AG opinion and Expert Opinion. The airport activities and regulated charges are two distinct issues and should be viewed as decoupled.
Forex Loss	Pass through opex	ECB was availed to optimize the overall cost of borrowing; while the Authority recoups the benefits of lower cost, the loss is not considered as pass through fully which is against the spirit of principles of equity.
Income from Real Estate Development	Outside Regulatory Till	To be viewed based on land lease agreement, State Support Agreement and GOAP earlier communications on the matter.
Treatment of Dividend and Interest Income	Outside Regulatory Till	Since the assets of the subsidiaries are not forming part of RAB any income arising out of investment activity should be outside Regulatory Till. Interest Income arises on account of deployment of surplus money retained in the business by depriving the shareholders by not paying dividend with the sole intent to make business prepared for uncontrollable shocks, ensures sustainability and prepare for undertaking infrastructure development on need basis.
cross subsidisation of 30% of Non-Aeronautical PBT under shared till	Cross subsidization at PAT level	ICAO principles of cost relatedness in generating non-aeronautical revenue should be considered to determine the contribution for Shared Till.
CSR and Donations	Aero expenses	To protect the regulated return on equity in accordance with the TDSAT Order
NOB	Common Assets	NOB is used as corporate office of GHIAL and hence to be treated as common assets.
SOB	Common Assets	To be allocated on overall common asset ratio.

Particulars	GHIAL Submission on Treatment	Basis of submission on Treatment
Township	Aero Assets	Township is meant for critical staffs deployed at operations as well as various support functions and hence to be treated as aero assets
Landscaping Dept	Aero	In line with treatment at other Airports
IT Dept	Aero	Critical for Airport Operations
Guest Relations Dept	Aero	Integral part of Airport Operations

IV. TRUE-UPS FOR SECOND CONTROL PERIOD

1. Assets Segregation

The Authority proposes to follow assets segregation based on the Independent Study

Our Response:

GHIAL have already submitted our perspective from Concession Agreement, Land Lease Agreement and State Support Agreement in the guiding principles section of the submissions. Hence our response in this section would be brief and request the Authority to read all the issues in conjunction with the detailed submission in the preceding section of the submission.

Particulars	Submission
Cargo Satellite Building	This would be treated as non-airport activity as per Part 2 of Schedule 3 of the CA wherein the 'Offices for freight consolidators/ forwarders or agents at cargo complex, offices for airlines' is explicitly mentioned.
Cargo Terminal Building	The conjoint reading of CA, AG opinion and Legal Opinion of Ex-CJI of Supreme Court concludes that CGF revenue should be treated on par with 'other charges'. The activity mentioned in Part 1 of Schedule 3 of the CA provides for list of infrastructure facility with the limited objective of infrastructure that the airport operator should provision for in order to carry out airport activity. However, equating the same with 'Regulated Charges' is not proper and the corroboration of the same can't be made from Schedule 6 of the CA.
Fuel Farm	Please refer to our submission on the preceding section on CGF treatment.
Ground Power	Ground Power being akin to ground handling services should form part of treatment of CGF as per CA.
New Office Building (NOB)	NOB is the corporate office of GHIAL. Pending absorption of the floors by GHIAL, it was let out with the intent to reduce the ARR and thereby reduce the aeronautical charges. However, the Authority's treatment of the

Particulars	Submission
	assets based on its occupancy is not proper as the purpose should determine the assets classification not the temporary usage of the assets and request the Authority to consider the assets as common.
Site Office Building (SOB)	In line with NOB, GHIAL has done opportunistic let out of the unabsorbed space. Hence request the Authority to consider SOB based on the intent for which it was set up.
Township	The Airport being away from the city, GHIAL developed township to house critical staffs engaged in airport operations and corporate functions to have quick response time during emergency. Hence the very nature of the assets is meant for the core purpose rendering airport services and hence should be considered as aeronautical assets.
Ground Handling	Please refer to our submission on the preceding section on CGF treatment.
IDAT	The overall area of IDAT is 4000 sqm which is entirely catering to passenger processing consist of only check in counter, baggage reclaim area, passenger sitting space, utilities. Non-aero offerings on the floor of IDAT primarily consists of car rental counters, paid portals and few vending machines which is around 22.60 Sqm area. On a overall basis retail area in IDAT is ~ 0.57% of total IDAT area. Hence GHIAL request the Authority to consider IDAT assets as 99.43% aeronautical and not to equate this to passenger terminal building having higher non-aeronautical offerings.
IIDT	The overall area of IIDT is 9000 sqm which is entirely catering to passenger processing. Total Non-aero offerings on the floor of IIDT is on 105 sqm area which is 1.17% of total IIDT Area. Non-Aero services at IIDT primarily include area given for pharmacy, forex counters, paid porters, secure wrap, vending machines etc. Hence we request the Authority to consider IIDT assets as 100% aeronautical or max 98.3% aeronautical and

Particulars	Submission
	not to equate this to passenger terminal building having higher non-aeronautical offerings.
Passenger Terminal Building (Plant & Machinery)	PTB Plant and Machinery is essential for PTB. HVAC, lifts, Escalator, PHE are essential for airport operation and not incidental to non-aero revenue. Hence, these should be considered as aeronautical.
PTB IT system other than explicit used for non-aero	PTB IT system which are not specifically used for Non-Aero are essential to provide airport operation accordingly should be considered as aeronautical asset.
PTB Lighting	PTB Lighting is necessary for airport operation irrespective of whether there non-aero service. Any utilisation by non-aero concessionaire has been netted off from total expense. Accordingly, the PTB lighting related asset should be considered as aeronautical.
Landscaping	We request the Authority to consider landscaping as aeronautical in line with the treatment in other airports as this is an integral part of overall passenger experience.
Reservoir	<p>As a responsible airport operator, over the period, GHIAL has undertaken various sustainable initiatives. One such initiative was to build reservoir as the natural gradient of the airport land can be used to recharge ground water and also to meet water requirements at the airport. Almost 60 days of water requirement of the airport is met through reservoirs. GHIAL understand that the Authority has mistakenly presumed this asset as an extension/for the Hotel. This asset has been built on the GO 111 land. The location is 2-3 km away from the Hotel. The reservoir is built to cater the entire Airport premise and not alone the Hotel. Hence, the location of asset should not determine the allocation of the assets.</p> <p>Hence the location of the assets should not determine the treatment of the assets as GHIAL cannot get natural gradient to hold water within the airport premises. To draw parallel, the solar plant is located at landside</p>

Particulars	Submission
	<p>but the power generated by it is used by the airport. GHIAL submit that the reservoir water is used exclusively for airport requirements.</p> <p>Hence GHIAL request the Authority to consider the reservoir capex of Rs. 27.47 crores as part of RAB.</p>

GHIAL request the Authority to reconsider the assets segregation approach in light of the above submission.

2. Decommissioning of Parking Stands

The independent study also highlighted that 12 parking stands had been decommissioned by HIAL in 2018 and 2019, however, the same did not reflect in the fixed asset registers of HIAL. Hence based on arbitrary approach, an amount of Rs. 14.91 Crores has been deleted from aeronautical assets before arriving at that gross fixed asset ratio

Our Response:

The current development work at GHIAL has been undertaken in a brownfield airport and accordingly the construction works undertaken in Apron areas for expansion works involve modification of few remote stand areas.

The contention of the Authority that the decommissioning of parking stands did not reflect in the Fixed Assets register of GHIAL is on account of conversion of parking stands to contact stands as the piers are extended as part of current expansion. Hence the usefulness of the capital cost that incurred still stands to benefit GHIAL and accordingly as per accounting standards same should not account for deletion from the FAR

GHIAL would like to draw the attention of the Authority to the operating part of Accounting Standard 10 wherein the recognition of cost of assets is as under:

The cost of an item of property, plant and equipment should be recognised as an asset if, and only if: (a) it is probable that future economic benefits associated with the item will flow to the enterprise; and (b) the cost of the item can be measured reliably.

Accordingly, the random deletion of Rs. 14.91 crores isn't required as GHIAL shall continue to derive economic benefits and hence we request the Authority to align the treatment in line with the treatment in the audited books of account.

However, in case the hypothetical deletion is made in the balance sheet from aero assets, the corresponding reflection in the form of charge off to P&L Statement is required as per double entry system of bookkeeping. Hence we request the Authority not resort to hypothetical deletion of the assets; however, in case such deletion is considered, the Authority may please consider charge off of equivalent amount to P&L Statement in the same year.

3. Cost of Debt

The Authority considered cost of debt for the second control period as per Table 32 of the Consultation Paper.

Our Response:

GHIAL would like to draw attention of the Authority to 2 aspects:

- a. During the second control period, fresh debt was raised in Oct 2017, Apr 2019 and Feb 2021. Hence simple averaging without giving effect to timing of the drawdown of debt would lead to incorrect borrowing cost. Hence actual draw down of the debt to be factored for calculation of cost of debt

GHIAL have observed that the debt addition for FY18 has been erroneously considered as Rs 1640 Cr against actual debt drawal of Rs 2147.3 Cr [Total bond proceeds raised in FY18 Rs 2230 Cr (USD 350 mn) adjusted with proportionate hotel loan of Rs 82.6 Cr].

GHIAL request Authority to consider the average debt for FY18 based on above debt drawl and suitably adjust the timing factor for calculation of cost of debt.

- b. It would be pertinent to mention that the debt raised during this period is for expansion funding. Hence during the construction period, as per accounting standard, interest forms part of IDC and doesn't reflect in P&L. Hence while calculating cost of debt, total interest (both P&L and IDC) to be considered.

GHIAL have worked out the average debt and cost of debt for the second control period as under and request the Authority to consider the same for true-up computation;

Particulars – Rs. Crs	FY17	FY18	FY19	FY20	FY21
Opening Debt	1523.3	1525.0	2147.3	2147.3	4214.3
Addition	50.0	2147.3	0.0	2067.0#	2188.0*
Less: Repayment	48.3	1525.0	0.0	0.0	0.0
Closing Balance	1525.0	2147.3	2147.3	4214.3	6402.3
Average Debt (Considering actual drawdown of funds)	1,524.2	1,836.1	2,147.3	4,214.3	4,578.9

Interest Paid (including Capitalised Interest)	154.3	170.4	192.3	402.4	437.0
Cost of Debt	10.12%	9.28%	8.95%	9.55%	9.59%

#Drawn on April 10, 2020

*Drawn on Feb 2nd 2021

GHIAL request the Authority to consider the above basis while calculating the cost of debt.

4. Depreciation:

The Authority has recalculated the yoy depreciation for the Second Control Period based on the revised additions to RAB as per the rates fixed by the Authority in its Order No 35/2017 18 which is also adopted by HIAL in its computation from FY19 onwards. Further, the Authority has adjusted the depreciation towards ADFG assets. The Authority has revised the depreciation based on the new rates which was proposed by the Authority in its Order No. 34/2019-20

Our Response:

GHIAL is unable to reconcile the basis of depreciation calculation of the Authority. Even after considering the adjustments as mentioned by the Authority in table 36 of the Consultation Paper, GHIAL observed that the book depreciation and the depreciation considered by the Authority is having significant gap.

For the calculation of depreciation for 2nd control period, adhoc depreciation rates have been applied on the asset class wise gross block. We have observed that though the allocation change has been made for asset additions pertaining to FY17 to FY21, no change has been considered for the opening asset block of FY2017. It is observed that the opening gross block is not been considered correctly for CP2 depreciation calculation. This methodology will leave a major inconsistency between book depreciation and depreciation as per the Authority in future and it will be a huge reconciliation issue.

Particulars – Rs. Crs	FY17	FY18	FY19	FY20	FY21
Depreciation as per Books of Accounts (Adjusted with dep on ADFG and AS11 assets)	172.75	173.04	144.16	151.85	170.56
Aero Depreciation considered by the Authority – Table 36 of the CP	108.82	112.04	140.99	176.53	184.38
Aero Depreciation after giving effect to the changes proposed by the Authority in CP (As per GHIAL computation)	149.20	149.62	131.04	137.01	154.29
YoY Difference	-40.38	-37.58	9.95	39.52	30.09

GHIAL is unable to ascertain the gap in depreciation and request the Authority to revisit depreciation computation. GHIAL request the Authority to align the overall depreciation with book depreciation and then allocate between aero and non-aero.

Additionally, we would also like to request to the Authority to consider the following treatment to align the Net Block of assets while deletion is considered.

- a. When assets are deleted from gross block, the corresponding accumulated depreciation should also be deleted so that the net impact of deletion is taken to the P&L. The following accumulated depreciation of the deleted assets should be considered:

Particulars – Rs. Crs	FY17	FY18	FY19	FY20	FY21	Total
Total Deletions as per Books	1.86	4.10	1.01	106.00	52.74	165.71
Accumulated Dep on deletion	1.53	1.13	1.01	37.54	23.26	64.47
Net Deletions to be considered	0.32	2.97	0.00	68.46	29.48	101.24
Aero Deletions						
Aero Deletions as per (as per Authority- Table 30)	1.05	10.31	9.42	97.22	51.99	169.98
Accumulated Dep on Aero Deletions (Allocation as per Authority)	0.43	1.03	0.84	32.56	22.96	57.82
Net Aero Deletions to be considered	0.62	9.28	8.58	64.66	29.03	112.16

GHIAL request the Authority to consider the net deletions, aggregating to Rs 112.16 cr, as against gross value of assets deleted from the books while calculating the RAB.

5. Operating Expenses:

The Authority has commissioned an independent study to analyse efficient operation and maintenance costs submitted by the operator and determine the allocation and their reasonableness which is important for effective execution of tariff determination for aeronautical services.

The independent study has reviewed the various cost centers and developed a basis for segregation into aeronautical and non-aeronautical activities. The independent study had also determined the appropriate proportion of common cost centre that may be included in aeronautical activity, in order to determine the total aeronautical cost

Our Response:

Without prejudice to our right of CGF related expenses being non-aero, for the limited purpose of the consultation paper, we are submitting our responses on opex allocation based on Authority's treatment.

Details of Expenses	GHIAL Submission
General Admin Cost	<p>GHIAL has submitted a detailed response and rationale for the travel expenses incurred during the 2nd control period vide our letter no 1580 dated 21st April 2021 which is annexed herewith for ready reference.</p> <p>GHIAL request the Authority to revisit the travel cost of senior management which is essential for the mainstay of airport business and treat overall travel cost as common as submitted instead of random allocation</p>
Community Development	<p>GHIAL request the Authority to consider CSR as part of aero opex as explained in the preceding section in order to protect the fair rate of return on equity.</p>
Bank Charges	<p>The Authority hasn't considered the amount attributed to interest charges due to delayed payment.</p> <p>In this regard, GHIAL would like to submit that the interest charges due to delayed interest payment is on account of the very operative aspect of advance tax payment mechanism. GHIAL tend to pay advance tax based on our estimates of profitability for the year broken into each quarter. However, the actual performance and the incidence of tax shall vary, hence the Tax Authority considers the difference in tax provision and actual tax payments and levy interest on the same.</p> <p>Since the advance tax payment has the systemic lacuna, all the tax paying corporates are having the challenges on delayed payment interest.</p> <p>Hence GHIAL request the Authority to consider the delayed payment interest as part of eligible opex.</p>

Details of Expenses	GHIAL Submission
Forex Losses	<p data-bbox="671 194 1332 499">It is observed that the Authority as per Order No. 34 2019/20, has not included the forex losses in the RAB calculation but allowed partially recovery by considering it as operating expenses (to the extent where the effective interest rate on external commercial borrowings = interest rate on rupee term loan).</p> <p data-bbox="671 539 1332 1077">In this regard, GHIAL request the Authority to take cognizance of the fact that GHIAL has always been making endeavours to reduce the cost of borrowing by tapping overseas market and thereby reducing reliance on Rupee bank loan which are relatively expensive. Our weighted average cost of borrowing for the second control period has been 8.13% (table 32 of the CP) which is very competitive by any standard. The significant reduction is achieved on account of refinancing exercise that we have undertaken in FY18 by way of raising of USD Bond at all-in-cost of 8.90% replacing the RTL which was hovering at 11%.</p> <p data-bbox="671 1120 1332 1227">The legacy ECB that GHIAL refinanced out of the proceeds of USD 350 million helped in two counts:</p> <ol data-bbox="722 1234 1332 1462" style="list-style-type: none"> a. GHIAL has arrested the further forex loss as well as b. bring down the weighted average cost of debt to ~200 bps against the Authority allowed permissible cap of 10.70% +50 bps. <p data-bbox="671 1503 1332 1731">Given the above backdrop, it can be observed that the refinancing has brought down the overall cost by 230 bps (10.70%+0.50%-8.90%) which for a tenor of 10 years (average maturity of USD 350 million bond being 10 years) works out to 23%.</p> <p data-bbox="671 1771 1332 2036">Hence, GHIAL request the Authority to consider onetime loss of Rs.186.62 crores (the aeronautical portion of which is Rs.155.23 crores) as part of allowable operating expenditure spread over the tenor of refinanced loan, i.e., 10 years as the cost of one time loss of Rs.186.62 crores for drawn</p>

Details of Expenses	GHIAL Submission
	<p>amount of USD 350 million (Rupee equivalent of Rs.2230 crores) works out to 8.37%.</p> <p>Hence we request the Authority to redraw the Opex eligibility based on the above submission.</p>

6. Aeronautical Tax:

The Authority further reiterates its stance as per decision no. 8 order no 34/2019 20 and proposes to allocate HIAL's taxes (as per the aggregate profit & loss account) between aeronautical and non-aeronautical components based on the ratio of taxes as per both aeronautical and non-aeronautical profit & loss accounts.

Our Response:

It has been observed that the Authority has computed Aeronautical P&L without considering cross subsidization of non-aero Revenue. Since the cross subsidization reduced the aeronautical revenue eligibility of the airport operator, this should form part of revenue for the purpose of aeronautical P&L computation.

In accordance with building block approach, Authority subsidizes the aero eligibility of GHIAL calculated as per building block by 30% of revenue from revenue share assets. In other words some part of the aeronautical revenue is expected to be recovered through cross subsidy from revenue from revenue share assets. However, while determining tax Authority has not considered this 30% of revenue.

TDSAT in case of MIAL appeal no 4 of 2013 against the CP1 order of MIAL in its order dtd. 15th Nov'2018 at para 15 opined that:

"...by the provision in the Agreement, 'S' is an element of revenue on aero side and by the same yardstick must be added while calculating the 'T'. We find some merit in these arguments.."

Accordingly TDSAT vide Judgment at Para 41(i) remanded the matter of considering the S-Factor as part of revenue in calculation of tax, to AERA.

The Authority should consider the S-Factor in consideration for aeronautical tax for DIAL. Since, this is the issue of settling principle under the SSA the effect of such consideration should be taken from the first control period itself.

Since Aeronautical P&L of the Authority doesn't consider cross subsidization, the aeronautical P&L is artificially kept suppressed. Further it goes against the spirit of fair rate of return on equity. Although aeronautical revenue is 69% of the total revenue of GHIAL in second control period, aero tax is just 44.78% of total tax

outgo of GHIAL. This shows the fundamental flaw of tax computation wherein aeronautical P&L is suppressed by 30%, i.e. equivalent of cross subsidization.

Further, the actual tax paid by GHIAL is the minimum alternate tax paid on account of available benefits under 80IA of the Income Tax Act. Authority has in a way denied the statutory benefits of section 80IA being made available to the company for investing in the infrastructure development while considering the lower MAT into the building block (allocated in the ratio of respective taxes as per Aero and Non-Aero PBT). Tax payable based on the aeronautical taxable income computed as per the normal provisions of the Income Tax Act, 1961 should be considered as pass through tax in place of MAT paid by the company

Hence, we request the authority to consider 30% of non-aeronautical revenues for drawing of aeronautical P&L and calculate the eligible aero tax as per the normal tax provisions (instead of absorbing the benefits of 80IA) to protect Fair Rate of Return on Equity

7. Non aeronautical Revenue

The Authority proposes to treat CGF services as aeronautical service and consequently the income from these services including cargo, ground handling and fuel farm including CSB and GPU, income from ICT as aeronautical revenue. The Authority also proposes to treat the dividend income from duty free subsidiary as non-aeronautical and cargo subsidiary as aeronautical revenue, revenue from commercial property development as non-aeronautical in line with recommendation of GoAP to treat real estate income as non-aeronautical revenue.

Our Response:

Without prejudice to our contentions and rights that CGF being non-aeronautical, we have aligned our response with the Authority's treatment of CGF for the limited purpose of this Consultation Paper.

GHIAL has given detailed rationale for dividend income, interest income and income from real estate to be outside Regulatory Till in the preceding section of the submissions and request the Authority to consider the same.

Further, GHIAL has observed that the Authority has considered notional gain on account of fair value of Interest Rate Swap (IRS) of Rs 40.19 cr and Rs 11.9 Cr in FY18 and FY19 respectively as part of non-aeronautical income. GHIAL would like to submit that the fair valuation of IRS is a book entry and hence notional in nature and it is not realised in cash.

Hence GHIAL request the Authority to exclude notional gain on account of fair value of IRS from non-aero revenues.

8. Other Issues

a) Pending True up for first control period

This is with reference to true up of operating expenses provided in chapter 3 of the Consultation Paper No. 30/2017-18 dated 19.12.2017 for first control period, GHIAL had submitted that there was a shortfall of Rs 8.33 crore towards aeronautical operating expenses basis Authority's calculation. Following is the extract of variation submitted by GHIAL as part of response to the consultation paper:

Particular	2012	2013	2014	2015	2016
Aero Expense- CP1 order - (Excl Fuel, Concession Fee)	186.39	184.55	197.81	212.28	227.31
Truable items as per order					
Utilities	15.89	23.48	23.48	23.48	20.48
Rates & Taxes	6.25	13.14	13.14	13.14	13.14
Bank Charges	2.98	1.81	1.81	1.81	1.81
Sub-Total	25.12	38.43	38.43	38.43	35.43
Revised Aero eligibility	161.27	146.12	159.38	173.85	191.88
Concession Fee	18.68	21.78	22.59	13.54	15.02
Fuel	8.55	9.52	10.39	11.33	12.36
Aero expense excluding forex	188.50	177.43	192.36	198.72	219.26
Expense allowed by AERA in CP	204.66	193.66	199.74	201.03	219.62
Balance to be allocated forex	16.16	16.23	7.38	2.31	0.36
Actual allowable forex in line with AERA proposal	15.18	15.07	7.61	7.96	4.95
Excess/(Shortfall) towards forex	0.98	1.16	(0.23)	(5.65)	(4.59)

Authority has captured this submission as part of para 3.73 in the order no 34/2019-20 for 2nd CP. Further, Authority in the same order at para 3.99 noted the same and proposed that the suitable reconciliation will be done at the time of third control period. Following is the relevant extract of the order:

3.99. Also, the Authority notes RIAL's submission that as per HIAL's calculations, there is a shortfall of Rs.8.33 crores in the true-up for operating expenses. The Authority notes that the difference is on account of the aeronautical concession fee which is allowed towards true-up. The Authority notes RIAL's suggestion that the aforementioned differential could be addressed through a reconciliation exercise along with HIAL. The authority proposes to conduct this reconciliation at the time of tariff determination for the 3rd Control Period.

Authority in the consultation paper no. 11/2021-22 has proposed that the true up for first control period will be only to the extent of CSR expense. Authority's proposal is against it's own decision and against the tariff principles. Accordingly, we request Authority to kindly relook into the expense reconciliation for first control period and consider the true up of Rs. 8.33 Cr. with time value in CP3.

b) 4.9.5 The Authority noted that Airport Authority of India (AAI) has discontinued paying the rental for providing ANS/CNS services in FY20 and FY21 for the Second Control Period. Although AAI has discontinued paying the rentals, the Authority proposes to consider these rental for FY20 and FY21 towards aeronautical revenues as a commercial activity is being undertaken by the parties

Our Response:

It has been observed that Authority has considered notional rentals for FY20 and FY21 for ATC tower. All along we have been making endeavours to collect lease rents from AAI however given the constraints we request the Authority to consider ATC rentals on actual invoicing basis only.

V. CONSIDERATION IN THIRD CONTROL PERIOD

1. Traffic Projection

The Authority has considered the following traffic for FY22;

	Traffic (in Mn.)	FY22
Domestic		12.41
International		1.93
Total		14.34

Our Response:

While GHIAL agree with the Authority on the traffic recovery from FY23 onwards, GHIAL request the Authority to consider FY22 traffic on account of the second wave of Covid pandemic which has affected the Q1FY22 traffic at the airport;

Traffic (in Mn.)	April-21	May-21	June-21	Total
Domestic	0.71	0.27	0.39	1.37
International	0.09	0.03	0.04	0.16
Total	0.80	0.30	0.43	1.53

As can be observed GHIAL has clocked 1.53 million of traffic in the first quarter of current fiscal and with the onset of impending of third wave the traffic recovery in FY22 would be very muted.

GHIAL believe that the recovery of traffic is closely tied-in to the pace of infection and the pace of vaccination. Given the current focus of vaccination, GHIAL is of the view that significant part of population of metro and tier 1 and tier 2 cities would be vaccinated by December giving a fillip in air traffic in Q4FY21 provided India successfully avert the onslaught of third wave of Covid pandemic.

Pax Projection:

As per our current estimates, domestic traffic for FY22 would be in the range of 9.50 million. It may be observed that international traffic will take some more time as most of the countries are still preferring bubble arrangement as the foreign countries are still witnessing infection rate albeit at a manageable level. GHIAL believe our international traffic for FY22 would be in the range of 0.80 million in FY22.

Given the above, the month-on-month stack up of traffic is estimates as under:

Traffic (in Mn.)	Domestic	International
Q1FY22	1.37	0.16

Traffic (in Mn.)	Domestic	International
July 21	0.70	0.05
August 21	0.75	0.05
September 21	0.80	0.05
October 21	0.85	0.05
November 21	0.90	0.07
December 21	0.95	0.07
January 22	1.00	0.08
February 22	1.05	0.08
March 22	1.10	0.08
Total	9.48	0.74

GHIAL request the Authority to consider traffic of 10.22 mn for FY22

Transfer/Transit Pax

In last few years RGIA has emerged as the hub of South & Central India. Under the Regional Connectivity Scheme (RCS) of Govt. of India, all the major Indian Carriers have deployed ATR/Q400s type aircraft at RGIA and connected to number of RCS routes and connected to various smaller catchment cities/towns out of RGIA. In Fiscal 2021 and 2020, total 12 RCS routes were catered out of Hyderabad viz Cudapa, Gwalior, Hubballi, Nasik, Belgaum, Jharsaguda, Kolhapur, Ajmer, Mysore, Nanded, Pondicherry and Vijaynagar. These RCS routes have also contributed to transfer traffic at RGIA. In Fiscal 2021, UDF exempted RCS pax was around 2.25% of the total domestic pax.

During FY21 the COVID-19 pandemic, the still prevailing pandemic had hit the world including India and the traffic numbers came down drastically during this period. Airlines were consolidating their operations in main cities like Hyderabad instead of connecting directly between Tier II to Tier II/III etc. cities/towns. Due to this the transfer traffic number at Hyderabad has increased significantly in FY21. GHIAL expect that once the situation is restored comes back to normal, our unbillable transfer traffic at HYD may will settle down around 10% range as against our initial submission of 1.08% of total domestic pax. However, for the purpose of rate card GHIAL has assumed domestic departing transfer and transit pax as filed with the Authority.

Air travel has been impacted due to the unprecedented Covid'19 pandemic and it is very difficult complex to estimate the likely traffic for the current control period. Hence, GHIAL request the Authority to allow mid-term review of the rate card at the end of FY23 based on actual billable traffic for FY22 and FY23 so as to enable us to achieve and that recovery the of ARR as proposed in the consultation paper is achievable.

ATM Projection:

GHIAL request the Authority to consider the historical ATM as basis for projection of ATMs. Historically, the pax/ATM is as under:

Particulars	FY19	FY20
International Pax/ATM	151	149
Domestic Pax/ATM	113	112

Hence GHIAL request you to revise the ATM numbers for the third control period based on the above submission.

Regulatory Assets Base and Depreciation:**a. Capital expenditure towards capacity expansion to 34 MPPA**

The Authority has considered the following capital expenditure towards capacity expansion of 34 Mn. It is observed that the Authority has accepted RITES recommendations and given additional allowance towards Apron & Taxiways and GSE Tunnel and Design Development and PMC for Rs. 29.80 Crores and Rs. 4.38 Crores more than the revised cost estimates by RITES.

Particulars	GHIAL Submission	RITES Recommendation	Difference
Total Terminal Building Cost with Airport Systems (a)	3728.32	3347.39	(380.93)
Apron & Taxiways and GSE Tunnel Cost (b)	978.47	814.11	(164.36)
Expansion of the Kerb and Approach Ramp (c)	156.40	156.40	0.00
Road Infrastructure (d)	167.00	104.28	(62.72)
Hard Cost	5030.18	4422.18	(608.01)
Preliminaries, Insurance & Permits (e)	120.20	98.35	(21.85)
Design Development and PMC (f)	202.94	132.67	(70.27)
Contingencies (g)	243.01	132.67	(110.34)
Total Soft Costs (2) = (sum of e to g)	566.15	363.69	(202.46)
Total Capital Expenditure (1) + (2)	5596.34	4785.87	(810.47)
Authority considered additional (6.2.5 of the CP)		34.14	34.14
Total	5596.34	4820.01	(776.33)

Authority has disallowed expansion capex basis recommendation as per independent study primarily in the per sqmt cost and the area under expansion. With respect to the disallowances proposed by Authority GHIAL would like to submit as following and request the Authority to kindly consider our request favourably:

➤ **International Competitive bidding and market discovery of cost**

GHIAL would like to submit the GHIAL has embarked on capacity expansion in a brownfield airport. The award was based on the scope document prepared by design consultant Meinhardt, a globally renowned consulting firm. During AUCC, GHIAL considered the area as was emanating out of design basis which the bid was invited. GHIAL run an international competitive bidding process to select the L1 bidder. After having evaluated the bids, in order to further optimize the cost, the technically qualified bidders were asked to submit separate proposal with entire scope of works, proposal excluding Airport Systems and proposal for supply of only Airport Systems. The following bidders submitted the proposals;

Sr No	Description	L&T	Megawide
1	Original Scope	✓	✓
2	Excluding Airport Systems	✓	✓
3	Only Airport Systems	Regretted	✓

Accordingly, contract for supply of Airport System was awarded to Megawide Construction Corporation and balance work was awarded to L&T Limited. The Authority shall appreciate that by splitting the contract GHIAL was able to make a saving of Rs.50.02 crores. The purpose of adoption of ICB was to market discover the price of the works. We request the Authority to take cognizance of the fact that market discovery of price through ICB is always a better proposition than cost estimation which is more of a perception based on experience. Since the brownfield expansion has its execution challenges and the construction period is spread over 42 months, the bidders while bidding for the project has factored in the unforeseen costs and time to put together the bid.

The RITES reports are more of cost estimation based on assumptions which doesn't reflect the demand environment, supply constraint, unpredictable commodity price cycles and skillset challenges. The contracts were awarded during the heydays when the economy was growing, commodity prices were on upcycle, many of the metro airports unveiled capacity expansion as the airport was experiencing high teens growth and infrastructure was awfully inadequate.

GHIAL request the Authority to take into account above variable that are generally into the play in the bidding process while the bidders submit their bids. A case in point would be the price movement in flat steel, an essential supply for airport construction. The average price of flat steel in the month of June 2021 was

Rs.69,500 per tonne which is almost 2x of what it was in the same month last year (Rs.37,350) (source: CRISIL Research). In the first half of 2021 flat steel price were 51% higher year-on-year- Rs.58,717 per tonne vs Rs.38,000 in the first half of 2020. Such spike in prices of commodities are not rare and not one-off. Hence the bidders in order to protect the margin while submit their bids duly price in the eventualities which can't be quantified in cost estimation exercise which is more of traditional way of looking at things taking into consideration historical developments. Hence, we request the Authority to assign due weightage to factor in the intangibles in a bidding process that have a significant bearing on the outcome of a bid.

While Authority has been emphasising on finalising the project cost based on benchmarked prices as per the study, these benchmarked prices may not be resulting into actual project cost and there could be differences in the final project cost derived post market discovery vis a vis cost recommended as per the study. Even in case of similarly placed airports authority has allowed a margin of 10% over and above the indicative cost as per the study.

Given this perspective on the cost, we would like to submit our rationale on the area of airside and terminal and the request the Authority to consider the same while allowing the capital cost of our expansion works.

➤ **Discrepancies noticed in the consideration of areas for airside and terminal**

It seems that the Authority has relied on the areas mentioned in the AUCC document. The areas mentioned in the AUCC document were arrived on a macro approach with an intent to get the consent of the stakeholders. Once the consent of the project was in place and the contracts were awarded the detailed design of the project undertaken. The final areas post the detailed design were submitted to AERA / Rites vide our submission dated 16th March 2021.

A. Airside

The airside area in the revised submission is considered as per the current design considering the various airside optimization initiatives to improve the airside efficiency. The MYTP filing was on the basis of AUCC document while the design during execution stage incorporated the inputs from the stakeholders (AAI) to bring in cohesive execution which will facilitate airside operations on non-intrusive basis for years to come. The key differences from the initial submission to the final because of such initiatives are stated as under:

a) Area of Apron and Taxiway with respect to areas presented in AUCC

1. Reduction of Apron Area and Increase of Taxiway area due to introduction of dual Code C Taxilanes:

During the AUCC phase it was felt that a single taxiway would be sufficient to meet the requirements of both north and south remote apron. However, during the interactions, review & approvals by statutory authorities, it was advised by Airport Authority of India that operations will not be efficient

without introducing dual taxilanes. The design was accordingly modified based on the recommendation and the dual taxilanes have been considered in the final design. To accommodate this arrangement, south apron area has been reduced from 79,564 sqm to 51,072 sqm and taxiway increased from 48,613 sqm to 77,105 sqm, effectively maintaining the same paved footprint area (apron + taxiway).

2. Expansion of Bravo Taxiway:

Initially, it was felt that a parallel taxiway of 2350m would suffice to meet the requirements of runway occupancy time and aircraft taxiing. However, during the interactions, review & approvals by statutory authorities, it was advised by AAI that further extension of bravo taxiway upto MRO/till the threshold of Runway 09L would give access to the beginning of the runway without backtrack and also facilitate aircraft operations to RWY 09R/L due to change in wind pattern from October onwards.

Accordingly, Bravo taxiway extension of 534m beyond 2350m is proposed to be constructed during the expansion stage. Hence the increase in taxiway area from 79,831sqm to 104,186 sqm. The email communication of AAI and the reasons for area interchangeability as explained in above point shall be read conjointly.

3. Additional 2 RETs

Originally, four new RETs were envisaged in master plan for 34 mppa to be constructed in a phased manner (2 initially and 2 subsequently). Accordingly, it was updated in AUCC to build 2 nos. However, at the time of awarding EPC contract, 2 nos were included in Contract and 2 more were put as provisional item. However, during the interactions, review & approvals by statutory authorities, it was advised by AAI to look into the possibility of constructing two new RETs for each runway at a distance of 1600 meters to cater ATR-72 type of aircraft and 1900 meters to cater Code-C type of aircraft, which would optimize the arrival ROT (runway occupancy time). Hence during the execution of EPC contract, these provisional items have been operated and thus 4 are being constructed (email communication of AAI attached for reference).

It is reiterated that the contract for the construction of 4 RETs was in place before COVID and the construction had already been initiated before the lockdown. Also, both the Taxiways extension and the construction of RETs form an integral part of the overall airside works that require the closure of the entire runway for extended periods, this work cannot be deferred to a later date for execution on a piecemeal basis. The current scale of operations provides execution window with minimal runway interruption as the taxiway/secondary runway can handle the current peak ATMs which otherwise would have been very challenging during elevated scale of ATMs. Accordingly, the area being constructed as per current design vis-à-vis our submission to the Authority as per MYTP as under:

Particulars – Sqm	As per MYTP/AUCC			As per Current Design		
	Apron	Taxiway	Total	Apron	Taxiway	Total
West Apron	57,472	131,230	188,702	57,472	131,230	188,702
North East Apron	25,379	65,874	91,253	25,379	65,874	91,253
Remote Apron (North)	75,150	115,950	191,100	75,150	115,950	191,100
Remote Apron (South)	79,564	48,613	128,177	51,072	77,105	128,177
Parallel Taxiway (Bravo)	-	79,831	79,831	-	104,186	104,186
Rapid Exit Taxiways		23,133	23,133	-	47,431	47,431
Total	237,565	464,631	702,196	209,073	541,776	750,849

Request Authority to consider the areas as per the current design given above.

B. Terminal Building

The Terminal building design has undergone changes on account of the following:

East and West Side Processor areas

During execution phase, it was found necessary to shift 18m of west side terminal expansion towards eastern side to protect demolition of Interim International Departure Terminal (IIDT) as the said terminal was built to cater to uninterrupted international operations till such time the entire international area is released after expansion. Because of this shift of 18m to eastern side certain areas were required to be increased to facilitate baggage handling equipment, airline offices etc. During the detailed design stage of the PTB for 34 MAP, Operations and other stakeholders including Airlines and reserved services have sought additional office spaces. This requirement was considered with additional floor space created at C level.

East and West Side Pier areas

Design of 34 MAP master plan envisages piers with bulbs (expanded area at the end of pier) on either end to accommodate maximum number of contact and remote stands. During the development of detailed design, simulation has revealed that additional space will be required to improve the passenger movements and other amenities. It was also felt that these areas in bulb portion have good vertical clearance and are appropriate areas to cater for passenger amenities like lounges etc. Accordingly, a mezzanine area of 3055 sqm on eastern side and 2582 sqm on western side of pier is proposed to be constructed. This will improve the passenger experience in the bulb area. With this arrangement, it would ease out the passenger movement and creates an opportunity for providing passenger amenities.

It may please be noted that the changes highlighted above require changes to the basic structure of the single, integrated terminal building including

creation/strengthening of foundations, pillars etc which are difficult to undertake once the terminal becomes operational, thereby necessitating the execution of works along with the ongoing construction. Accordingly, the area being constructed as per current design vis-à-vis our submission to the Authority as per MYTP as under:

Particulars – Sqm	As per MTYTP/AUCC	As per Current Design
Terminal Forecourt	12,095	11,948
East Side (Processor) Terminal	27,914	43,756
West Side (Processor) Terminal	69,703	59,409
East Side Pier	69,020	69,138
West Side Pier	70,077	68,201
Mezzanine		5,637
Total	248,809	258,089

In aggregate, the overall modification in airside and terminal area based on MYTP submission vis a vis current design is as under:

Particulars – Sqm	As per MTYTP/AUCC	As per Current Design	% Change over MYTP/AUCC Submission
Airside	702,196	750,849	6.93%
Terminal	248,809	258,089	3.73%

The Authority will appreciate that the exact areas cannot be determined at the concept design stage and areas are bound to get adjusted during detailing stage especially with an expansion of this scale (almost 3x in capacity). The minor increase in area is a requirement coming out of detailed design, meeting stake holder expectations, challenges related to brown field expansion. Hence GHIAL request the Authority to consider the area that are being constructed as per current design for the purpose of evaluation of our MYTP for 3rd control period.

➤ **Per Sqm Rates considered for terminal and Apron and Taxiways**

As mentioned above GHIAL request the authority to consider the actual cost incurred which has been derived from international competitive bidding and not benchmarked cost to arrive at the project cost for CP3. Without prejudice to the argument GHIAL has the following observations on the per sqm rates considered in the consultation paper.

- In order to arrive at the cost RITES applied inflation based on CIDC Index and given the additional impact of GST on its earlier capital cost per sqm of terminal and airside which was more of an exercise of reasonableness assessment of the cost estimates of our earlier proposed expansion of 20 MAP. CIDC index is not a true reflection of inflationary effect on airport construction.

- The Authority in case of DIAL considered CPWD rate of inflation which is more market representative of the price increase in construction materials. Distinction needs to be made in building construction vs airport construction as airport construction is specialised in nature with design complexity, façade convolution, significant strengthening of the subgrade for load bearing capacity and is heavily tilted towards price of steel and of equipments like PBB, BHS, Escalators, Elevators etc which are primarily imported and given the rupee depreciation of 4.55% (CAGR of rupee depreciation till end of calendar year 2020 over end of calendar year 2017) on imports alone, the inflation is certainly higher than CIDC index.

We request the Authority to consider the capex towards terminal and airside works in line with our submission.

➤ **Capex considered for Road infrastructure:**

The capital cost of road infrastructure is reduced from 8 lanes to 6 lanes. The road widening was envisaged primarily to have uncongested vehicular movements given the past traffic growth that the Airport witnessed during pre-Covid period. The reduction in cost is not explained by the RITES, hence GHIAL are unable to rationalize the reduction and request the Authority to give us allowance in full.

However, GHIAL would like to submit to the Authority that this project shall be taken up after the traffic recovers to a level of 20 mn+. Out of total project cost envisaged towards road infrastructure, company incurred Rs 24.23 Cr till FY2021 and balance capex of Rs 142.77 Cr shall be incurred once there is a significant increase in traffic. Hence, GHIAL request the Authority to allow for true up of the project cost based on actuals in the fourth control period and not to incur any penalty on account of non-capitalisation in third control period.

➤ **Soft cost provisions:**

GHIAL would like to draw the attention of the Authority on the following soft cost estimates of RITES for 20MAP expansion works vs 34MAP expansion works of GHIAL;

Particulars	RITES (% of Hard Cost) - 20MAP	RITES (% of Hard Cost) - 34MAP	GHIAL (% of Hard Cost)- 34MAP
Preliminaries, Insurance and Permits	3.4%	2.2%	2.4%
Design & PMC	5.0%	3.0%	4.0%
Contingency	3.0%	3.0%	4.8%
Total	11.4%	8.2%	11.2%

As can be observed from the table that our current soft cost provision is in line with the RITES approved soft cost provisions for 20MAP. The reduction in soft cost for 34 MAP is not cogently explained by RITES and the % taken is arbitrary and without any basis. GHIAL would like to provide our perspective on each component of soft cost provisions as under:

Preliminary:

Earlier in case of 20 MAP proposed expansion, RITES considered preliminary @3.4% of project cost while giving a perspective that it ranges between 1% to 5% depending on the scale of the project. As part of information submission to RITES, GHIAL has provided the detailed list of preliminary works and since our current preliminary cost estimates is at 2.38%, GHIAL request the Authority to consider the same as part of capex.

Design PMC:

The Design and PMC cost for the project is in line with earlier evaluated cost of RITES for our 20 MAP expansion proposal wherein RITES provisioned 5% of capital cost towards design development and PMC.

RITES have contended that there could have been better price discovery had PMC contract been bid out. However, RITES while estimating capital cost of terminal and airside defy the said principles of market discovered price and prevailed over its imputed cost. Hence the overall approach of RITES on the cost estimation exercise lacks understanding of basic tenet of market discovered price.

We would like to reiterate that although PMC is awarded to our group company, however, the award is purely on arms-length basis. It is the only airport focus consultant in India and have worked in various airport projects in India and abroad. Had an overseas consultant was appointed as PMC, GHIAL believe the cost would have been even higher. Value of PMC is arrived for utilization of services of various discipline experts over period of project implementation. Cost of different experts is based on manpower cost benchmarking study carried out by PWC. Therefore, in effect, considering the project implementation period and the magnitude and size of the project, the PMC cost is comparable which is ~3% of the hard cost of the project.

As part of the responses, GHIAL has submitted the manpower deployed by PMC including the cost to arrive at the total PMC cost. However, RITES failed to take cognizance of the said submission.

Hence, GHIAL request the Authority to approve our Design and PMC cost of Rs. 202.94 crores.

Contingency:

For our 20 MAP expansion proposal RITES provisioned 3% of capital cost towards physical contingencies including any modification to the scope of work and unforeseen items. RITES acknowledged that considering the magnitude of the project, the provision of 3% towards contingencies is considered adequate and the same is followed by the government organizations such as AAI and CPWD.

GHIAL has made a lumpsum provisions of contingency at 4.8% of the hard cost of the project. Since this is a mammoth brownfield expansion and the impact of

increase in capacity to 34 MPPA could not be assessed/ exact scoping was not feasible at the beginning of the project, hence GHIAL was of the views that 5% of the hard cost of the project towards contingencies would be sufficient.

During the course of implementation of the project, various design modifications were required to maintain aesthetics and seamless feel which resulted in additional work being undertaken. The communication on additional works were submitted to RITES vide our letter no GHIAL/2020-21/SPG/1523 dated February 10th 2021 stating that we are deliberating at an acceptable variation order. Such claims at present are to the tune of Rs 360 Cr, details of which have already been submitted to RITES in our above stated letter. Hence we request the Authority to reconsider basis the evidence already provided and allow contingency during true up.

Since the project has achieved physical progress of ~68%, hence the actual cost provisioned against contingency should be considered. Hence we request the Authority to consider and approve contingency of Rs.243 crores.

In view of the aforesaid submission, GHIAL request the Authority to consider the capital cost for expansion as per revised submission of GHIAL as given below;

Particulars – Rs. Crs	GHIAL Submission	Capex considered by the Authority	GHIAL Revised Submission
Terminal Building Cost with Airport Systems (a)	3728.32	3347.39	3728.32
Apron & Taxiways and GSE Tunnel Cost (b)	978.47	814.11	978.41
Expansion of the Kerb and Approach Ramp (c)	156.40	156.40	156.40
Road Infrastructure (d)	167.00	104.28	167.00*
Hard Cost	5030.18	4422.18	5030.18
Preliminaries, Insurance & Permits (e)	120.20	98.35	120.20
Design Development and PMC (f)	202.94	132.67	202.94
Contingencies (g)	243.01	132.67	243.01
Total Soft Costs (2) = (sum of e to g)	566.15	363.69	566.15
Total Capital Expenditure (1) + (2)	5596.34	4785.87	5596.34
Additional allowance		34.14	-
Total	5596.23	4820.01	5596.34

* Out of total project cost of Rs 167 Cr envisaged towards road infrastructure company incurred Rs 24.23 Cr till FY2021. GHIAL has decided to defer the expansion of widening of main access road to fourth control period and incur the balance capex of Rs 142.77 Cr when there is a significant increase in traffic. Hence, GHIAL request the Authority not to levy any penalty on account of delay in capitalisation and allow the true up based on actuals in the fourth control period.

The upfront determination of cost is important to us as the contracts are awarded through competitive bids and disallowance of such scale as proposed in the Consultation Paper shall make the entire expansion unviable. We request the Authority to include the above increased allowance as part of third control period tariff. In case Authority is not inclined to consider the above incremental capex of Rs 713.55 Cr in the 3rd Control Period ARR, true up of the same based on actual capex incurred towards the project should be allowed during 4th control period.

The Authority should appreciate the fact that the contracts are already awarded and capital commitments have already been made. GHIAL also has raised requisite funding for the same. Hence such significant disallowance shall have negative bearing on the cash flows and debt servicing ability as well as may lead to a potential rating downgrade thereby increasing the future borrowing cost significantly.

Interest During Construction:

The Authority noted HIAL's submission to fund the expansion capital expenditure through debt and internal accruals in the ratio of 70:30. Considering the revision in the capital expenditure and the Authority's guidelines, the Interest during Construction proposed to be allowed for the Third Control Period is as given below;

Particulars – Rs. Crs	Aggregate for second control period	FY22	FY23	FY24	Total
IDC	39.78	188.42	286.43	165.06	679.68

Our Response:

GHIAL would like to bring to the notice of the Authority that in the given scenario GHIAL could able to tie up the debt for the pending debt for the project. GHIAL has raised USD 300 million in Feb 2021 (Rupee Equivalent of Rs.2188 crores) to achieve financial close of the expansion project. By this GHIAL has secured the project cost as fully funded and ensured that there is no financing risk to the Airport as well as any inconvenience to the stakeholders. The landed cost of the facility including hedging works out to 9.65% p.a. payable semi-annually. GHIAL request the Authority to consider the same while computing IDC and cost of Debt.

The arrangement fee for the said bond is Rs. 40.54 Cr which will be amortised over bond tenure (as part of project cost till Mar 2023 and thereafter as part of P&L till Feb 2026). GHIAL request the Authority to consider the above development in CP3 tariff determination exercise.

Further, GHIAL has also observed that amortised bond issue cost pertaining to Bond II (USD 300 Mn raised in April 2019), Rs 6.22 Cr and Rs 0.15 Cr has not been considered as part of Bank charges in FY24 and FY25 respectively.

Amortised Bond Issue Expenses to be included in Bank charges:

Particulars – Rs. Crs	FY22	FY23	FY24	FY25	FY26	Total
Issue cost- Bond II				6.22	0.15	
Issue cost- Bond III				8.13	8.10	6.80
Total				14.35	8.25	6.80

GHIAL request the Authority to consider the same while calculating the IDC for expansion works.

Penalty in case of delayed execution:

6.2.30 The Authority proposes to reduce 1% of the total project cost from ARR/Target Revenue as readjustment in case any particular capital project is not completed as per the capitalization schedule during the true up of the Third Control Period, at the time of determination of tariff for the Fourth Control Period.

Our Response:

The investment being regulated in nature, GHIAL is constrained to have recovery through alternative means thereby affecting the fair rate of return on equity. GHIAL also request the Authority to waive 1% penalty in case of delayed execution as GHIAL is passing through extraordinary time due to Covid pandemic and already the project team has to face two bouts of waves during the execution.

b. General Maintenance Capital Expenditure:

Capital expenditure towards airfield pavement enhancement and airfield ground lighting Upgrade

The Authority noted HIAL’s submission that due to COVID situation, HIAL was unable to carry out the stakeholders’ consultation and the same would be undertaken by HIAL once the situation improves and social distancing norms are relaxed. The Authority would like to mention its dissatisfaction and concern over HIAL not carrying out the stakeholders’ consultation. The Authority reiterates that the stakeholders’ consultation is of prime importance and the same should have been conducted via online mediums and channels. In this regard, Authority directs HIAL to conduct the said consultation at the earliest.

Our Response:

We take a note of the Authority’s observation on AUCC process and would like to draw attention of the Authority that AUCC for the project is already concluded in September 2015 seeking approval for the project wherein it was proposed that

the execution would be carried out in 2 phases; between FY 18 to 21 and the balance in FY 22 to 24. However, due to inadvertent error in the submission we presented that AUCC shall be conducted.

Since GHIAL couldn't take up the project during FY17-18 due to constraint on airside as the traffic growth was significant and decided to have accelerate implementation during Covid time when airside intervention would not cause serious disruption in ATMs. Hence GHIAL request the Authority to waive the stipulation of AUCC for the said project as it is already conducted.

Capital expenditure towards general and allied capital works:

- Under the statutory requirements as per HIAL's submission, HIAL has proposed procurement of body scanners for 36 ATRS lanes at a cost of Rs. 108 Crores in the Third Control Period for the purpose of building a new cargo terminal. It is understood that 36 ATRSs lanes may not be required in a cargo terminal and shall be applicable for a passenger terminal.
- Under the statutory requirements as per HIAL's submission, HIAL has proposed drain gratings for covering the open storm water drains at a cost of Rs. 30 Crores in the Third Control Period. The Authority is of the view that the subject expenditure may not be essential given that it will have limited application towards resolution of issues such as water logging and blockages.

Our Response:

Body Scanners – GHIAL would like to submit that there was an inadvertent error in our submission of body scanners. Instead of cargo terminal, the said scanners would be forming part of the terminal to ensure passenger processing. This spent is emanating from the statutory requirements (**Annexure XII: BCAS CIR,1/2019**) and hence GHIAL request the Authority to consider the said capex of Rs.108 crores as per the following phasing;

Particulars	Rationale	FY22	FY23	FY24	FY25	FY26	Classification
Body scanners for 36 ATRS lanes	Required in the existing terminal for passenger processing.	36.00	42.00	15.00	15.00	-	Aero

Drain Gratings - With respect to other disallowance of sustaining capex estimates, viz., drain gratings for covering the open storm water drains we would like to inform that this capex has been envisaged towards ensuring safety of Aircraft during the runway excursion and is required to be incurred for providing enhanced safety. Hence, GHIAL request the Authority to consider it as part of

general and allied capital works in third control period which needs to be carried out.

Particulars	Rationale	FY22	FY23	FY24	FY25	FY26	Classification
Drain gratings	Covering the open storm water drains	-	-	-	15.00	15.00	Aero

GHIAL request the Authority, inter alia, to consider the project., viz., study by NATS for new runway requirement and airside capacity, AOCC, IMC and SOCC in the expanded terminal, widening of the perimeter road and development of GA Apron drains, as true-up in case GHIAL has to take up the project due to traffic recovery faster than the anticipation.

Operating Expenses for the Third Control Period:

The Authority observed that HIAL has calculated % of Aeronautical Assets and % of Aeronautical operating expenditure based on the assumptions and projections for the Third Control Period. However, the Authority proposes to consider % aeronautical opex ratio as 83.06% (average of revised aero opex ratio for the Second Control Period as per the independent study) consistently throughout the Third Control Period. Similarly, the Authority proposes to consider aeronautical asset ratio as 91.32% (average of revised aero asset ratio for the Second Control Period as per the independent study) consistently throughout the Third Control Period. These ratios are used to allocate common operating expenses under various costs heads submitted by HIAL.

Our Response:

It has been observed that the Authority has considered allocation of third control period operating expenses based average of YOY ratio for aero assets and aero expense based on the outcome of the study. Since, nature of assets that are proposed to be added in third control period are primarily aero in nature, GHIAL request the Authority to adopt dynamic aero assets and aero opex ratio instead of static ratio which is average of revised aero asset and aero opex ratio for the second control period as per the independent study

It has been observed that the Authority has allowed only inflationary increase in most of the opex item and one time cost for expansion is considered in FY23 and FY24. On a broader scale the opex considered for 20.6 million passenger with inflation should be given in FY23 despite traffic being in the same range. Hence GHIAL request the Authority to revisit the opex as submitted by us while consider the following;

Manpower Expenses:

GHIAL request the Authority to consider real increase over inflation which is a standard industry practice to retain manpower. Further GHIAL request the Authority to consider one time increase in manpower count in FY22 and FY23 as GHIAL will be rolling out expanded terminal for passenger use and the onboarded employees need to be provided necessary training to make them job ready.

The approach of additional manpower requirement linked to traffic is not optimal as GHIAL was managing the passengers processing through its existing constrained terminal and hence optimized the manpower deployment which shall be achieved in expanded terminal over the period in line with passenger growth. Since the impact of pandemic is felt in traffic, GHIAL is not proposing any linear growth in manpower headcount in line with traffic. Hence GHIAL request the Authority to consider the following increase in manpower numbers:

Particulars (Nos.)	FY22	FY23	FY24	FY25	FY26
Manpower Growth– As per MYTP	16.5%	29%	7%		
Manpower Growth– Revised		16.5%	29%	7%	

General Admin:

Legal Cost – GHIAL in it's ordinary course of business come across disputes with customers, supplies, regulatory bodies etc. which requires legal settlement to ensure continuity of the organization. Organizations don't incur legal expenses out of own volition, the situation compels it to incur in order to ensure the very existence of it. Given the said purpose of incurrence of legal cost, in our MYTP filing we considered legal cost as common cost and there is no departure in our submission from the previous control period wherein the Authority approved legal expenses as common cost.

Authority at its para 7.2.10 has stated following:

The Authority noted that as per HIAL's submission legal is a support function and accordingly HIAL has allocated most of the legal cost as common cost. The Authority proposes that legal cost pertaining to aeronautical activities should only be allowed as part of the tariff determination exercise hence in absence of detailed bifurcation of legal cost by HIAL into aero and non-aero, the Authority proposes to project the legal costs for the Third Control Period allocated between aero and non-aero in the ratio of 50:50.

Authority's observation is incorrect. As desired by Authority we have provided a detailed list of expenses incurred towards legal fees along with the rationale for the 2nd control period. Most of the legal expenses were incurred towards ensuring continuity of airport business. The independent study has also concluded the allocation of legal expense as common for second control period. The cost for CP3 is simply a projection GHIAL is unable to understand the rationale for bifurcation by the Authority in case of projections. Hence GHIAL request the Authority to treat legal expenses as common for the purpose of CP3 projection, this treatment will be consistent to the outcome of independent study.

Community Development and Donations:

Based on the pronouncement of TDSAT Order and as explained in the preceding section of the submission, it can be inferred that the intent of the order is to preserve the fair rate of return on equity to airport operator which has been affected due to a statutory levy. Since in our case CSR is allowed on aeronautical profit only and as there is no aero profit as per regulatory determination, GHIAL is unable to recover the amount spent on CSR thereby affecting our equity return negatively.

Hence GHIAL request the Authority to either treat this as aeronautical opex fully or the unabsorbed CSR should be deducted from non-aeronautical revenue and cross subsidization shall be allowed on the balance amount. This will comply with the spirit of the TDSAT judgement.

Bank Charges:

GHIAL request the Authority to consider the historical trend of receivables in our books which is as under:

Particulars -Rs. Crs	FY17	FY18	FY19	FY20	FY21
Receivables	108.43	120.37	153.65	214.47	213.25
Revenue from Operations	1195.9	1331.5	1549.8	1611.1	546.76
Receivables Turnover (no. of month)	1.09	1.08	1.19	1.60	4.68

Given the historical trend of receivables, it is requested to increase the period from 0.5 months to 1.5 month for projecting working capital requirement for the third control period.

It may be noted that the processing fee and the cost related to issuance of debt is required to be charged off to P&L over the tenor of the facility. The Debt which GHIAL has raised to fund its expansion, the cost related thereto has been charged off in line with accounting treatment. Otherwise, this would have been forming part of IDC/preliminaries. Hence we request the Authority to allow bank charges considered by GHIAL due to amortization of processing fee and onetime cost related to expansion debt in FY24-FY26.

Particulars -Rs. Crs.	FY22	FY23	FY24	FY25	FY26
Amortization of Bond Issue Expenses – Bond II + Bond III			14.35	8.25	6.80

GHIAL also request the Authority to true-up bank charges based on actuals at the end of the Third Control Period.

True up in 4th Control Period:

GHIAL request the Authority to consider true-up of operating expenses based on actuals in the 4th control period

Non-Aeronautical Revenues for the Third Control Period:

The Authority has linked passenger growth rates as well as the ATM growth rates as revised in view of the current macro-economic scenario and overall slowdown in the aviation industry. These growth rates are used as modified growth drivers for the purpose of projecting the individual nonaeronautical revenue stream.

Our Response:

Without prejudice to our rights of CGF being non-aeronautical, GHIAL for the limited purpose of submissions of consultation paper, aligned the treatment of CGF as per the Authority.

It has been observed that the Authority has considered the following growth rates in FY22;

Particulars	FY22
Growth in Domestic pax	66.10%
Growth in International pax	234.59%
ATM Growth	43.57%

We would request the Authority to consider the most likely traffic for FY22 as explained in the preceding section (total traffic of 10.22 mn., domestic being 9.48 mn. and international at 0.75mn.) and impact of the reduced traffic be suitably adjusted for projections of non-aero revenues.

Interest Income:

The dividends and other non-operating income have been forecasted at the levels of FY20 for the remaining periods and shall be trued up as per actuals.

Particulars - Rs. Crs.	FY22	FY23	FY24	FY25	FY26	Total
Interest & Dividend from Duty Free Subsidiary	134.55	134.55	134.55	134.55	134.55	672.73

Our Response:

It has been observed that the Authority has extrapolated Interest Income earned by GHIAL in FY21 in the third control period.

GHIAL would like to submit that in our second control period interest income was outside Till primarily for the fact that such income is generated out of the liquidity which is retained in the business to ensure sustainability of the business and

address the infrastructure development requirements of the airport. Had the entire profit been dividend out to shareholders, GHIAL would not have earned interest income, however, it would make the organization vulnerable to external shocks, e.g., we are able to address the COVID related challenges and operational losses due to liquidity retained in the business and funding of expansion at 70:30 Debt equity ratio was not feasible. Please refer section II- Guiding Principles of Tariff Determination for the detailed rationale for exclusion of interest and dividend income out of regulatory purview.

The interest income considered by the Authority in third control period by extrapolating FY21 interest income is not proper as GHIAL started accumulating internal accrual to fund the expansion program at an optimal debt equity ratio. The surplus that the business generated during the intervening period gets deployed in the treasury instrument pending deployment to the project. Based on our current pace of airport execution, the entire cash would gradually be depleting and be exhausted by FY24.

Hence the Authority should encourage the airport operators to retain cash in the business to ensure continuity of operations and meet all the infrastructure needs of the airport and should not disincentivize by cross subsidizing 30% of the income.

The cash generation ability of GHIAL is not as significant that it would generate annual interest income of Rs.135 crores. Further, if the traffic for FY22 is considered at 10mn. instead of the Authority proposed 14 mn., the cashflow would look further depressed.

Further, we would like to submit that GHIAL was able to earn interest income in FY19-21 as it had built internal accrual to fund the project in the optimal Debt Equity ratio. The internal accrual pending deployment to the project was parked in instruments so that it earns returns. However, the expansion project being on stream, GHIAL would not have liquidity to earn interest income of the magnitude as considered. Further an amount of Rs. 29.75 crores was clubbed under interest income which is penal interest that Air India agrees to pay and this is "one time" in nature.

Given the above, GHIAL request the Authority not to consider interest income during third control period for the purpose of cross subsidization.

Income from Real Estate Development:

The Authority also proposes to treat revenue from real estate development as non-aeronautical in nature.

Our Response:

GHIAL would like to draw the attention of the Authority on our submissions in section II- Guiding Principles of Tariff Determination with respect to treatment of

real estate income. Income from real estate development as per our Concession Agreement is non-airport activity and hence should be outside Till.

AG of India also opined that ".....what is outside the precincts should not be in the jurisdiction of AERA." Hence GHIAL request the Authority to consider income from Real Estate Development as outside Till.

Hence GHIAL request the Authority to kindly consider revenue from real estate outside regulatory purview.

Taxation for the Third Control Period:

It has been observed that the Authority has computed Aeronautical P&L without considering cross subsidization of non-aero Revenue. This approach defeats the very purpose of Regulation wherein the economic and viable operations of the airport is enshrined.

As per the Consultation Paper of the Authority, the Aeronautical PBT for the control period minus 106.15 crores which sums up the fact that the airport operator despite having invested so heavily in the regulated business failed to earn minimum return and for survival it has sole reliance on non-aeronautical revenue.

Further, tax payable based on the aeronautical taxable income computed as per the normal provisions of the Income Tax Act, 1961 should be considered as pass through tax in place of allocation of actual MAT paid by the company under the benefits claimed as per Sec 80IA of the Income Tax Act.

Hence, we request the authority to consider 30% of non-aeronautical revenues for drawing of aeronautical P&L and calculate the eligible aero tax as per the normal tax provisions (instead of absorbing the benefits of 80IA) to protect Fair Rate of Return on Equity

VI. DISCOUNTING FACTOR

GHIAL would also request the Authority to have a revisit of the discounting rate applied in the calculation to arrive at present value of ARR as well as the computing rate applied in the calculation to arrive at present value of true-ups.

In this regard, GHIAL propose the following for consideration of the Authority:

1. It is proposed that the cash flows should be assumed to be available at the mid of the respective years as it is closer to the reality that the cash flows of a firm are distributed evenly throughout the year. The authority has followed this approach for the true-up of 1st CP and Pre-CP (01.09.2009 to 31.03.2011) values in the second control period tariff order. The Authority has assumed mid-year discounting also for the true-up of CSR.

However, the same approach is not applied on the cash flows pertaining to true-up of PCPE, true-up for 2nd CP and while discounting the Revenue requirement for the 3rd CP. It is requested that the mid-year assumption be applied to all the cash streams for logical appropriateness and consistency.

2. The discount rates for the calculation of discounting factors have to correspond to the period through which the discounting is being performed. While the authority has adhered to this philosophy in general, the following deviations have been observed;
 - a. The true-up value for the 1st CP and for pre-CP calculated in the 2nd CP tariff order considered the discounting rate of 10.10% for a period corresponding to CP2 from 31st March 2016 to 1st January 2018. While discounting at 10.10% was appropriate for the period until 31st March 2016, the discount rate of 10.84% should be applied for the period corresponding to 2nd CP.
 - b. While discounting the values till 31st March 2022, the authority has applied the 2nd CP rate of 10.84% for the period from 31st March 2021 to 31st March 2022. Since the period corresponds to 3rd CP it is proposed that the rate of 12.12% be applied while discounting for the period.
3. It is also proposed that the PV of all the cash flows be assumed till 1st October 2021 as the effective implementation date of new tariff.

Hence, we request the Authority to consider discounting factor basis mid of the respective year throughout the control periods.

Conclusion on CP:

GHIAL request the Authority to consider the representations made in the preceding section of the submission based on the guiding principles while determining the aeronautical charges for 3rd control period.

VII. ANNEXURES

[Annexure I- Opinion of Attorney General of India](#)

[Annexure II- Opinion by Justice \(Retd.\) R C Lahoti, Former Chief Justice of India](#)

[Annexure III – Opinion of Solicitor General of India](#)

[Annexure IV – MoCA Letter F.NO. AV.24011/001/2011-AD in case of DIAL and
MIAL](#)

[Annexure V– GoAP Letters to the Authority](#)

[Annexure VI - Opinion by Shri. Yashwant Bhawe, Ex- Chairman, AERA on Non
Aero Revenues](#)

[Annexure VII- Jacobs Study on Cost of Equity](#)

[Annexure VIII- MoCA Letter on Fair Rate of Return on Equity](#)

[Annexure IX - SBI Caps Report on Cost of Equity](#)

[Annexure X- The Audited Financials of FY08](#)

[Annexure XI - Excel computations for PCPE from COD to March 31, 2008](#)

[Annexure XII- BCAS CIR,1/2019 for requirement of Body Scanners](#)



White Paper

Cost of Equity, Rajiv Gandhi International Airport Shamshabad, Hyderabad, Andhra Pradesh, INDIA

Prepared for

Hyderabad International Airport Limited



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Section 1

COST OF EQUITY FOR RGIA, HYDERABAD

1.1 INTRODUCTION

Although there are, in principle, a number of methods for estimating the cost of capital including the dividend growth model, and Fama French and other capital arbitrage based methodologies, by far the dominant approach to setting the cost of capital is the Capital Asset pricing Model (or CAPM). This assesses the cost of systematic or non-diversifiable risk associated with equity by a simple formula:-

$$r_e = r_{fr} + (1 + \beta) \times M_{rp}$$

where

- r_e is the cost of equity
- r_{fr} is a notional rate of interest for a 'risk free' asset - conventionally taken as the interest rate on Government debt
- β is a measure of systematic risk – the covariance between the movements of a quoted share equivalent to the company concerned and the stock market
- M_{rp} is the market risk premium – the average difference between returns on the (risky) market as a whole and the risk free rate.

It should be noted that this considers only market risk - on the grounds that any specific risk should be capable of being diversified away through portfolio management. In principle this means that any cash flows should be a weighted average of a range of scenarios which encompass the risks faced by the company as a whole – including disaster scenarios. If a single forecast is used then there is a strong argument for making risk adjustments either through the cash flows or – as would be done commercially - through the cost of capital (or both) to reflect the specific risks that would otherwise not be dealt with.

Regulators in the UK, for example, tend to adopt ad hoc approaches, based on using cash flows which are relatively conservative and using costs of capital towards the top of the range to allow for this problem.

1.1 Components of CAPM

1.1.1 Risk Free Rate

This CAPM formula assumes that there is an underlying long term risk free rate of debt – normally regarded as that of Government gilt edged securities - which reflects the real long term preferences of savers. The nominal risk free debt rate incorporates the effects of inflation which will vary over time. The equivalent real rate can be calculated through the Fisher formula as:

$$rfr_{\text{real}} = (1 + rfr_{\text{nominal}}) / (1 + i) - 1$$

1.1.2 Market Risk Premium (MRP)

Although straightforward in principle, this has been subject to significant debate and a wide range of figures is potentially possible in any given estimation.

The Mrp is defined above as the average difference between returns on the (risky) market as a whole and the risk free rate. For forward looking cost of capital determinations, this should reflect the reasonable expectations of shareholders – i.e. the anticipations that have led them to accept the higher risk of investing in equity - rather than necessarily the out-turn in the immediate past.

In practice equity returns are, of course volatile, meaning that these reasonable expectations should be based on average performance over a substantial period. In the case of India this should at least at least cover the period of financial liberalisation in 1991. In other countries averages over substantially longer periods have been taken into account.

There has been a substantial academic debate over whether arithmetic or geometric averages should be used. If returns in each year are regarded as entirely independent, and certain other conditions are met, it can be shown that an arithmetic average is appropriate. If other assumptions are met estimates closer to geometric assumptions may be preferred. It should be noted that Mr Doug Andrew the former Director of Economic Regulation for UK CAA in a recent conference in India strongly supported an arithmetic average approach.

Whatever methodology is used to determine the Mrp, it should, of course be consistent with any estimates made of the rfr.

1.1.3 Debt / Equity Ratio

Although only the cost of equity is estimated in this paper, the Debt/Equity ratio plays an important role in determining the equity beta.

In principle the debt and equity in CAPM calculations (and cost of capital calculations in general) should be based on market value. However in many applications the accounting values are used, either in the interests of simplicity and stability, or because there are no direct ways of ascertaining the values of the debt or equity concerned – especially for forward looking estimates. For a company such as Hyderabad International Airport Limited, which is not quoted, and for which valuations are inevitably contentious, it is these accounting values which will need to be applied.

1.1.4 Beta

For a quoted airport, the beta is the covariance of movements of the company share price with movements in a suitable market index over a substantial period. Put more simply, it is the average ratio between in the market over a period and movements of the stock involved. In current circumstances there may well be some problems in estimating this, since any figures during the credit crunch and the following financial disturbances are likely to be unstable and not representative of the likely position going forward. Averages over a significant period, are likely to be better estimators.

Although it is possible to use betas determined daily these are likely to be unstable and distorted for shares which are not heavily traded, and regulators have tended to make use of weekly or monthly betas over a substantial (five year) period.

Where a company is not traded, regulators have typically used comparable traded companies as a benchmark, making adjustments where necessary for known differences. Experience elsewhere has suggested that the best indicator for airports is other traded airports internationally. While some parties have suggested use of utilities, in practice their risk characteristics tend to be far lower than those of airports, and as a result the betas of quoted airport companies tend to be far higher than those of utilities in the same countries when like for like comparisons are made. Amongst the differences which have been noted are:-

- The less strong relationship with the economy as a whole – utilities, such as water, tend to be regarded as essentials, while air travel is primarily discretionary and therefore tends to be far more vulnerable to economic changes
- The lack of dependence, by utilities on income from areas such as retail, which clearly have higher underlying betas than utilities;

- The lower vulnerability of utilities to collapse or inability (or simply refusal) to pay by key customers responsible for a very large proportion of their overall output.

Any comparison between airports will be made more complicated by the different financial structures of the companies concerned. As a result benchmarking exercises normally attempt to put betas onto a standardised footing where the company is assumed to be all equity financed. These standardised betas are known as asset betas and are taken to represent the underlying risk of the asset itself prior to any financing structures. Once an appropriate asset beta for the operation concerned has been established, this is then converted back to an estimated company beta by re-adjusting for the effects of financial gearing.

The process concerned is known as de-levering and re-levering the beta. There are a number of formulae for this depending on assumptions made about the forward looking financial structure. A standard approach is to use the Miller formula, which is applicable in conditions where the debt remains constant.

$$B_e = \beta_a \times (1 + D/E)$$

where

- β_e is the equity beta; and
- β_a is the asset beta

It should be noted that this formula follows the standard approach of assuming the underlying beta of debt is insignificant. It is possible to extend the formula to include specific debt betas though these are very difficult (if not impossible) to measure under normal circumstances and have relatively little impact on the final result in most applications (though it will affect interim calculations of asset betas).

Where betas are estimated from comparable airport shares, the resulting beta will strictly speaking apply to the whole airport company - rather than to aeronautical activities in isolation. In some applications, attempts have been made to isolate the aeronautical components by treating the overall beta as a weighted average of activities comprising the aeronautical activities themselves together with a basket of companies which together represent non-aeronautical activities including retail companies (which typically have a high beta) and property investment companies (which have lower betas than airports). The results of these approaches have, in our experience, proved inconclusive and contentious, and for present purposes we have assumed that the airport company betas are broadly representative of the airport's aeronautical activities.

1.2 Values of Cost of Equity Parameters

1.2.1 Risk Free Rate

Calculating the risk free rate over a significant period in India is complicated by the fact that up to the early 1990's interest rates on India were repressed by strict government controls over the economy. Varma and Barua in their paper 'A First Cut Estimate of the Equity Risk Premium in India' have, however estimated an underlying risk free rate for India over the 25 years from 1980 to 2005. They split this period into the period up to the onset of major economic reforms in 1991, and the period subsequent to those reforms from 1991 – 2005. Up to 1991 the estimate incorporates substantial adjustments to the one year bank deposit rate to allow for, what they describe as 'interest rate repression' : beyond 1991 the estimates is based primarily on direct evidence from 364 day treasury bills (allowance is made for a transition period leading up to 1995). Since Varma and Barua's prime intention s to deal with the risk premium (see later) they are content to show the risk free rate figures in nominal terms.

Exhibit 1 below shows their results together with inflation over the same period, and the implications for the real risk free rate. All series are shown in arithmetic and geometric terms.

EXHIBIT 1

RISK FREE RATE ACROSS INDIA SINCE 1981

	Arithmetic			Geometric		
	Risk Free Rate	Inflation	Real Risk Free	Risk Free Rate	Inflation	Real Risk Free
1981-1991	12.0%	9.0%	2.8%	12.0%	8.9%	2.8%
1991-2005	9.5%	6.9%	2.4%	9.5%	6.8%	2.5%
Whole Period	10.6%	7.8%	2.6%	10.5%	7.7%	2.6%

The figure of 2.6% is numerically consistent with the 2.5% recommended for UK regulators in a major study by Smithers & Co and also used by the Irish regulator for the Dublin determination. We would have expected a higher rate to apply in the Indian context, and it is likely that the use of 1 year bills in India rather than 10 year bonds (which is standard in the UK) has depressed the risk free rate for this purpose (long bonds typically have a higher inflation and other risks leading to a premium which amounts to 0.5 to 1% for UK and US bonds). We have, however, left the real risk free rate unchanged so that it is consistent with the estimate used later for the equity risk premium, derived from the same source.

1.2.2 Debt / Equity Ratio

The airport financing structure for Hyderabad is made more complex by the presence of Government grants and an interest free loan from the state Government (which is to be paid off between 15 and 20 years after the opening of the airport). The grant is non refundable and is in the nature of equity. The interest free loan is subordinated to term debt and is in the nature of quasi-equity.

The long term lenders of Hyderabad Airport have treated both of these as quasi-equity and this treatment has been followed here, resulting in a debt equity ratio of 2.65 as shown in Exhibit 2 below.

EXHIBIT 2
HIAL DEBT / EQUITY RATIO

	INR Crs
Equity	378
Interest Free Loan from GoAP	315
Advanced Development Fund Grant	107
Total Equity	800
Term Loan 2005	960
Term Loan 2007	718
Additional Term Loan required	442
Total Debt	2120
Debt/Equity	2.65

Infrastructure projects are typically financed with high gearing and debt:equity exceeding 70:30. Such debt heavy structures will inevitably tend to have high costs of equity (as the debt level rises, the costs of both debt and equity rise commensurately). For comparison purposes, therefore, we have also derived a cost of equity with a more typical long term gearing for a mature airport.

In this case we have taken a financial structure of 50% debt 50% equity throughout the period, which we have assumed will be consistent with investment grade debt over the long term.

1.2.3 Beta

Beta has been estimated for airports in a range in a range of regulatory and other applications. Beta evidence has been used in three major determinations at Dublin, Copenhagen, and Stansted. Evidence on quoted airport betas derived from submissions to the Dublin process is shown below in Exhibit 3.

EXHIBIT 3

BETA VALUES AT AIRPORTS ACROSS THE WORLD

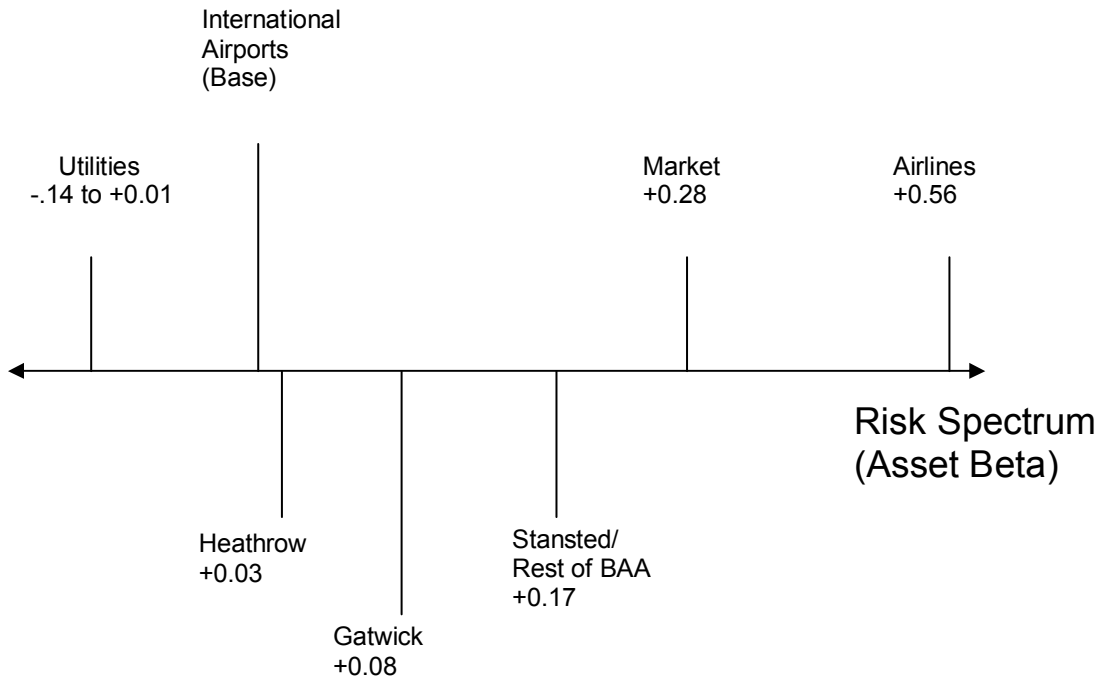
	Daily				Monthly		
	Last 6 months	Last year	Last 2 Years	Last 5 Years	Last Year	Last 2 Years	Last 5 years
Vienna	0.52	0.57	0.58	0.64	0.58	0.6	0.69
Frankfurt	0.52	0.57	0.63	0.67	0.66	0.69	0.72
Copenhagen	0.35	0.38	0.41	0.4	0.49	0.46	0.43
Paris	0.75	0.76	0.76	0.72	0.74	0.76	0.73
Venice	0.41	0.45	0.35	0.48	0.54	0.53	0.56
Florence Airport	0.43	0.42	0.42	0.46	0.44	0.45	0.48
Auckland	0.76	0.77	0.87	0.86	0.83	0.86	0.85
Ljubljana	1.16	1.16	1.09	1.07	1.17	1.11	1.07
Zurich	0.36	0.38	0.4	0.32	0.44	0.44	0.36
Mexico (Aeropuerto del Pacifico)	0.67	0.7	0.73	0.72	0.75	0.79	0.81
Mexico (Aeropuerto del Sureste)	0.68	0.69	0.67	0.65	0.56	0.61	0.63
Average	0.60	0.62	0.63	0.64	0.65	0.66	0.67

Taken together this gives a range for 'typical' airport betas of between 0.60 and 0.67. Even if Ljubljana is excluded (as an outlier) the range would be 0.55 to 0.63. These figures are consistent with the Copenhagen regulator's estimate of 0.63 as an average beta for airports aeronautical activities in isolation derived from a sample of 7 comparator airports (including Thailand and Malaysia) and the Dublin Airports decision to use 0.61.

BAA's regulator has gone beyond this to establish a representative range for airports though this uses a different methodology applying a debt beta as well as an equity beta with the result that asset beta numbers are not directly comparable. The resulting diagram, therefore, is shown below in differential form in Exhibit 4 (to avoid confusion arising from incompatible estimation methodologies).

EXHIBIT 4

**UK COMPETITION COMMISSION RELATIVE BENCHMARKS FOR AIRPORT BETAS
(FROM LONDON STANSTED AIRPORT PRICING REVIEW)**



Source: UK Competition Commission and Civil Aviation Authority

Exhibit 5 outlines the relative systematic risk (relevant to beta) of Hyderabad compared with major airports in general.

Between them, these factors would suggest a beta at the upper end of the scale. The regulators in the UK applied a premium of 0.17 for Stansted, where growth has now begun to mature. We would believe that Hyderabad, at this stage in its development is significantly more risky than Stansted. However for present purposes we have used a relatively modest premium to the airport range of 0.60-0.67 to arrive at an initial beta of 0.75.

EXHIBIT 5

RELATIVE SYSTEMIC RISK (TO BETA) OF HIAL COMPARED TO OTHER MAJOR AIRPORTS

Source of Risk	Relative Risk Faced by Hyderabad compared to Typical Airport	Comment
Traffic Risk	High	Traffic growth crucially dependent on rapid recovery and subsequent growth of the Indian economy
Domestic Exposure	High	Hyderabad has a high proportion of domestic traffic which is fully exposed to the national economy
Low Cost Airlines	Medium	Hyderabad will have a limited proportion of low cost traffic. Although leisure traffic is sensitive to the economy, low cost airlines have shown themselves better able to deal with cyclical risk than full fare operators
Non-aeronautical business	Low/Medium	Low level of aeronautical business means that growth risks are not diversified
Capital Cycle Risk	High	Major capital expenditure in anticipation of traffic growth. No opportunities for lower risk incremental growth.
Proportion of Fixed Costs	High	Partly as a result of the capital cycle, and the limited activities undertaken, very large elements of Hyderabad's costs are fixed further leveraging exposure to economic growth
Political Risk	High	The current issue of split of the state, if it materialises, may potentially impact traffic and the growth of revenues.

1.2.4 Equity Risk Premium

Consistent with our use of a relatively low risk free rate of 2.6% derived from Varma and Barua, we have adopted the equity risk premium figures from the same source shown in Exhibit 6. This gives an estimate of the risk premium of between 8.75 and 12.51%.

These estimates are high compared with typical risk premia from other sources covering developed countries. However the results are supported by, for example Mehra, who reports a risk premium between 1991 and 2004 of 9.7%. Mehra also gives figures for developed countries shown in Exhibit 7.

EXHIBIT 6

MARKET RISK PREMIUMS FOR EQUITY

	Arithmetic			Geometric		
	Equity returns	Risk Free Rate	Market Risk Premium	Equity returns	Risk Free Rate	Market Risk Premium
1981-1991	23.2%	12.0%	11.2%	21.00%	12.0%	9.0%
1991-2005	23.0%	9.5%	13.5%	18.10%	9.5%	8.6%
Whole Period	23.1%	10.6%	12.5%	19.30%	10.5%	8.8%

EXHIBIT 7

EQUITY RISK PREMIA FOR DEVELOPED COUNTRIES

Country	Period	Risk Premium
United Kingdom	1947-1999	4.60%
Japan	1970-1999	3.30%
Germany	1978-1997	6.60%
France	1973-1998	6.30%
Sweden	1919-2003	5.50%
US	1889-2004	6.50%
Australia	1900-2000	8.70%

Amongst the reasons for a high equity risk premium than is some other regulatory determinations are:-

- Use of bills rather than bonds
- Under-estimate of forward looking risk free rate expected by investors having taken into appropriate Indian Government credit ratings
- Intrinsic risks of investing in a high growth developing country rather than a relatively low growth and mature developed country.
- The relatively high and continuing level of inflation

Whilst the risk premiums estimates for India given are relatively high we have accepted them for current purposes as being consistent with the relatively low risk free rate applied.

As noted before academic research has generally supported the use of the arithmetic risk premium as the best unbiased estimate of the risk premium going forward, though

there is also evidence suggesting that in certain circumstances this could be an overestimate. We have assumed an estimate of 11% which is significantly below the upper end of the scale.

1.2.5 Resulting Cost of Equity

The final cost of equity derived from these calculations is shown in Exhibit 8.

EXHIBIT 8
HIAL COST OF EQUITY

Component		Current D/E Value	Standardised D/E Value
Inflation	I	5%	5%
Real risk free rate		2.60%	2.60%
Nominal Risk Free D/E	RFr	7.7%	7.7%
Asset beta	Ba	0.75	0.75
Equity beta	Be	2.74	1.5
Market risk premium	Mrp	11%	11%
Post tax cost of equity		37.8%	24.2%

As can be seen, the choice of debt equity ratio has a major effect on the cost of equity. In a WACC calculation this would be largely counteracted by the level of debt in the final calculation, with the final overall costs of capital being very close.

We have also considered the sensitivity of the outcome to different estimates of individual components. The results are shown in Exhibit 9.

EXHIBIT 9
FINAL COST OF EQUITY FOR HIAL

Element	New Value	Impact on Development D/E	Impact on Standardised D/E	Comment
Lower market risk premium	9%	-5.4%	-3.0%	Lower end of Varma and Barua range
Lower equity beta	0.6	-6.0%	-3.3%	Airport average
Lower risk free rate	2%	-0.6%	-0.6%	Lower level used in some UK regulation
Lower market premium, higher risk free rate	9% Mrp, 4.6% real risk free rate	-3.3%	-0.9%	Lower risk premium with compensating higher risk free rate

Overall we would recommend the use of a base cost of equity 38% with the development capital structure and 24% if a standardised debt: equity structure is applied.

The actual cost of equity appropriate individual project (as distinct from the 'airport as a whole' rate relevant to regulation) may however depend on the specific application being considered, with higher rates applicable for projects with higher risk than the airport as a whole, and lower rates being applicable for projects where the cash flows are more stable.

No.AV.24032/037/2011-AD
Government of India
Ministry of Civil Aviation

B-Block, Rajiv Gandhi Bhavan,
New Delhi-110003
12th March, 2012

To

The Chairman,
Airports Economic Regulatory Authority,
AERA Building,
Safdarjung Airport,
New Delhi

Sub: Regulatory Approach on Fair Rate of Return on Equity (RoE) – reg.

Sir,

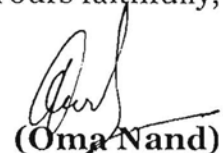
I am directed to refer to your D.O. letter No. AERA/35090/PMO REF/2009-10 dated 08.09.2011 on the above subject and to say that Airports Authority of India got a study conducted through a Financial Advisor namely M/s SBI Capital Markets Ltd. (SBI CAPS). The Financial Advisor has since submitted its report and has opined that a return on the Equity in the range of 18.5% to 20.5% would be reasonable for airport sector in India. A copy of the report of the Financial Advisor is enclosed.

2. On the Quasi Equity for the airport sector, the study has concluded that the rate of return would depend on the type and features of the instrument being used for such form of finance. The report further states that in case of Quasi Equity, the risk/return profile lies above that of debt and below that of Equity.

3. The report of the Financial Advisor may kindly be considered in taking decision in this regard.

4. This has the approval of the Hon'ble Minister of Civil Aviation.

Yours faithfully,



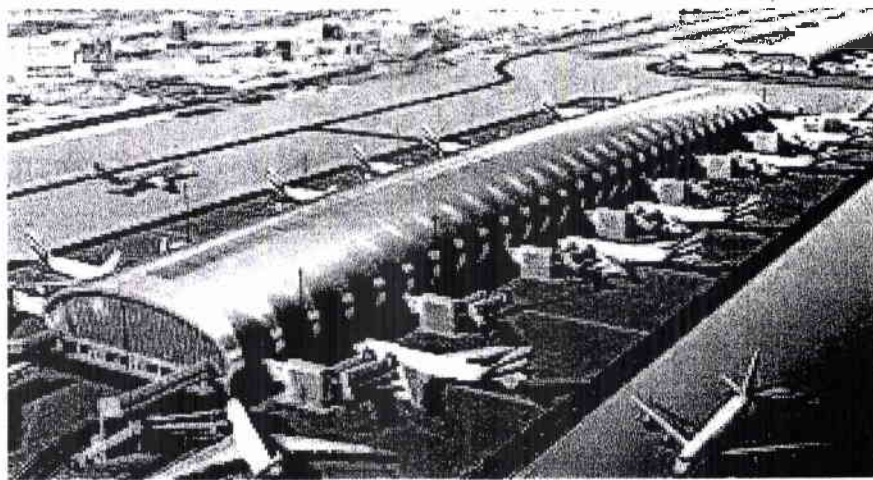
(Oma Nand)

Under Secretary to the Govt. of India
Ph.011-24640214, 011-24610542(Fax)

Encl: as above

AIRPORTS AUTHORITY OF INDIA

REPORT ON FAIR RATE OF RETURN ON EQUITY FOR INDIAN AIRPORT SECTOR



Strictly Private & Confidential
(A Subsidiary of State Bank of India)

New Delhi Office: 6th Floor, World Trade Tower, Barakhamba Lane, New Delhi - 110001
Head Office: 202, Maker Tower 'E', 20th Floor, Cuffe Parade, Mumbai - 400005

February 2012

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on 02.12.12
[Signature]

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1.- Background

Airports play a significant role in globalization, connecting cities and countries. Airports are a major part of a country's infrastructure and foster economic activities by encouraging international commerce and tourism and generating employment.

In India, traffic at airports have witnessed a robust growth over last decade and has also attracted significant investment in capacity enhancement. Government of India ("GOI") has initiated several policy measures to facilitate time-bound creation of world-class airports in India. As on date, airports at Cochin, Bangalore, Hyderabad, Delhi and Mumbai airports have been developed under Public Private Partnership ("PPP") model. The GOI aims to attract more private sector investment in airport infrastructure to ensure development of airport with international quality standards.

Airports Authority of India ("AAI" or the "Authority") has appointed SBI Capital Markets Limited ("SBICAP") vide their Letter No: AAI/CHQ/REV/2010-11 dated January 27, 2012 as Financial Advisor for providing an opinion on the fair Rate of Return on 'Equity' and 'Quasi Equity' for investor on its investment in airports under PPP model. The Scope of Work inter-alia includes following:

- a. Determination of fair Rate of Return on Equity using the appropriate method available for computation.
- b. Comparison of the fair Rate of Return on Equity as computed in this Report with return as considered in other infrastructure sectors.
- c. Review of risk involved in development of airports and its impact on fair Rate of Return.
- d. Determination of fair Rate of Return on Quasi Equity.

The objective of this Report is to determine a fair Rate of Return on 'Equity' and 'Quasi Equity' for investors on their investment in the airport sector in India based on the overall risk and return profile of the sector taking into account the total revenue from various sources.

2. Airport Sector – an Infrastructure play

The significance of airports in overall development of an economy is well established worldwide. Government of India and other statutory authorities including the committees set up at different times have also acknowledged the contribution of airport sector towards overall growth of economy and have classified airport sector as an infrastructure item in the definition of **Infrastructure**. These are discussed below:

2.1 Rangarajan Commission's notion of Infrastructure (2001)

The Rangarajan Commission indicated following six characteristics of infrastructure sectors:

- a. Natural Monopoly;
- b. High Sunk Cost;
- c. Non Tradability of output;
- d. Non rivalness in consumption;
- e. Possibility of price exclusion; and
- f. Bestowing externalities on society

Based on these features (except b, d and e), the commission recommended inclusion of the following in infrastructure in the first stage:

- Railway tracks, signaling system, station;
- Roads, bridges, **runways and other airport facilities**;
- T & D of electricity;
- Telephone lines, telecommunications network;
- Pipelines for water, crude oil, slurry, waterways, port facilities; and
- Canal networks for irrigation, sanitation or sewerage

2.2 Reserve Bank of India (RBI) circular on definition of Infrastructure

As per the RBI master circular no. RBI/2011-12/58 DBOD. No. Dir. BC. 7/13.03.00/ 2011-12 dated 1st July, 2011 on exposure norms, a credit facility is treated as “**infrastructure lending**” to a borrower company which is engaged in developing, operating and maintaining, or developing,



operating and maintaining any infrastructure facility that is a project in any of the following sectors, or any infrastructure facility of a similar nature;

- a) a road, including toll road, a bridge or a rail system;
- b) a highway project including other activities being an integral part of the highway project;
- c) a port, **airport**, inland waterway or inland port;
- d) a water supply project, irrigation project, water treatment system, sanitation and sewerage system or solid waste management system;
- e) telecommunication services whether basic or cellular, including radio paging, domestic satellite service (i.e., a satellite owned and operated by an Indian company for providing telecommunication service), telecom towers, network of trunking, broadband network and internet services;
- f) an industrial park or Special Economic Zone (SEZ) ;
- g) generation or generation and distribution of power including power projects based on all the renewable energy sources such as wind, biomass, small hydro, solar, etc;
- h) transmission or distribution of power by laying a network of new transmission or distribution lines;
- i) projects involving agro-processing and supply of inputs to agriculture;
- j) projects for preservation and storage of processed agro-products, perishable goods such as fruits, vegetables and flowers including testing facilities for quality;
- k) educational institutions and hospitals;
- l) laying down and / or maintenance of pipelines for gas, crude oil, petroleum, minerals including city gas distribution networks;
- m) any other infrastructure facility of similar nature

For raising external commercial borrowings funds, the RBI has defined infrastructure to include (i) power, (ii) telecommunication, (iii) railways, (iv) road including bridges, (v) sea port **and airport**, (vi) industrial parks and (vii) urban infrastructure (water supply, sanitation and sewage projects) (viii) mining, exploration and refining and (ix) cold storage or cold room facility, including for farm level pre-cooling for preservation or storage of agricultural and allied produce, marine products and meat vide its circular no. RBI/2011-12/ 9 Master Circular No. 9 /2011-12 dated 1st July 2011.

2.3 Income Tax Department

Section 80 – IA of Income Tax Act, 1961 allows deduction of 100% of profit from income to a company engaged in business of (i) developing; (ii) operating and maintaining; and (iii) developing, operating and maintaining any infrastructure facility. Deduction is available for a period of 10 consecutive years (to be selected out of 15 years from date of commencement of operations). For this purpose infrastructure facility amongst others includes airports, telecom, and ports.

2.4 World Bank

The World Bank treats power, water supply, sewerage, communication, roads & bridges, ports, airports, railways, housing, urban services, oil/gas production and mining sectors as infrastructure.

The tabular representation of the definition of infrastructure by various authorities/ institutions is as under:

Table 1: Infrastructure definition by various committees

Sector	RBI	Income Tax	World Bank
Electricity	Yes	Yes	Yes
Water Supply & Sewerage	Yes	Yes	Yes
Telecommunications	Yes	Yes	Yes
Roads & Bridges	Yes	Yes	Yes
Ports	Yes	Yes	Yes
Airports	Yes	Yes	Yes
Railways	Yes	Yes	Yes
Irrigation	Yes	Yes	-
Storage	Yes	Yes (at ports)	-
Industrial Park/ SEZ	Yes	Yes	-
Educational Institutions & Hospitals	Yes	-	-

3. Methods for computing Rate of Return on Equity

In finance, the cost of equity is the return (often expressed as Rate of Return) a firm theoretically pays to its equity investors, i.e., shareholders, to compensate for the risk shareholders undertake by investing their capital. Cost of equity represents the return that the market demands in exchange for owning the asset and bearing the risk of ownership.

There are various models to determine Rate of Return on Equity. Some of the models are as follows:

- Capital Asset Pricing Model
- Multifactor Model
- Build-up Model

3.1 Capital Asset Pricing Model ("CAPM")

The CAPM is a method of calculating the return required on an investment, based on an assessment of its risk. The CAPM method derives the rate by adding a risk premium to the risk-free rate. The risk premium is derived by multiplying the Equity Risk Premium ("ERP") with "Beta". ERP is the excess return that an individual stock or overall stock market provides over a risk free rate. This excess return compensates investor for taking on relatively higher risk of equity market. Beta is a measure of stock price volatility. Beta is associated with the systematic risks of an investment.

The CAPM provides an economically grounded and relatively objective procedure for required return estimation and thus is widely accepted and used for determination of Rate of Return on Equity. This risk and return model has been in use the longest and is still the standard in most real-world analyses.

The risk and return equation used under CAPM is as under:

$$r_e = r_f + (\beta \times (r_m - r_f)) \quad \dots \text{eq - 1}$$

where

- r_e is the Rate of Return on Equity
- r_f is the Risk Free Rate of return or a notional rate of return on 'risk free' asset



- $r_m - r_f$ is the Equity Risk Premium
- r_m is the expected market rate of return
- β (or "Beta") is the measure of systematic risk or non diversifiable risk of particular investment

CAPM is generally believed to be the most appropriate method for calculation of Rate of Return on Equity on account of following:

- It is an industry standard specifically in the context of estimating appropriate return benchmarks for regulated industries;
- It is easy to implement and interpret;
- It has the advantage of being very simple to use.
- It is very objective in nature and all the relevant inputs are easily available in the public domain.
- It is a useful method as it is statistical representation of past risk.
- It is the oldest and most used method in the industry for calculating the Rate of Return on Equity

Further in following documents/ study/ approach, CAPM has been used or advised to determine/ estimate Rate of Return on Equity.

- a. "Economic Regulation of Heathrow and Gatwick Airports (2008-2013)" – UK Civil Aviation Authority (CAA) decision dated March 11, 2008¹
- b. "Aeronautical Pricing Proposal" – Australian Competition and Consumer Commission's decision for Sydney Airports Corporation Limited in May 2001²
- c. Auckland International Airport Limited (FY'08 – FY'12 Price Setting Disclosure) – "Disclosure of Forecast Total Revenue Requirement and Demand Forecasts pursuant to clause 2.10(3) of the Commerce Act (Specified Airport Services Information Disclosure) Determination 2010" dated October 27, 2011

¹ Source: http://www.caa.co.uk/docs/5/ergdocs/heathrowgatwickdecision_mar08.pdf

² Source: <http://www.accc.gov.au/content/item.phtml?itemId=978120&nodeId=47121da3c023548ab0d05d3f8830b925&fn=ACCC's%20Decision.pdf>

- d. Airports Economic Regulatory Authority – (Terms and Condition for Determination of Tariff for Airport Operators) Guidelines 2011³
- e. Department of Disinvestment in India (Ministry of Finance, Government of India) – “Valuation Methodology”⁴

3.2 Multifactor Model

Multifactor Models estimate the Rate of Return on Equity based on multiple factors. These models are based on the principle of arbitrage pricing theory which adds a set of risk premiums to risk free rate to find the required return. Arbitrage pricing theory models express the required return on an asset as follows:

$$r_e = r_f + (rp_1 + rp_2 + \dots + rp_n) \quad \dots \text{(Equation - 2)}$$

where

- $rp_n = (\text{factor sensitivity}) \times (\text{factor risk premium})$ where factor sensitivity (or factor beta) is the asset's sensitivity to a particular factor (holding all other factors constant).

The advantages of Multifactor Model are that it allows investors to tailor the model to match their specific risk exposure, and the inclusion of multiple risk factors may improve the model's explanatory power. However, the Multifactor Model does not indicate the appropriate risk factors, may not be economical, and may not significantly improve upon the CAPM's cost of equity. Further it creates difficulty of using multiple factors and assimilation of data related to it.

3.3 Build-Up Model

The Build-Up Model uses building blocks to get to the final Rate of Return on Equity. Some commonly used building blocks are:

- Risk Free Rate (Government Bond Rate);
- Debt margin (what the Banks want in addition);
- Operating risk premium;

³ Source: <http://aera.gov.in/writereaddata/order/188.pdf>

⁴ Source: http://www.divest.nic.in/Valuation_Methodology.asp

- Subordination or financial risk premium (how much more should be attributed to the fact that debt gets paid first);
- Liquidity premium (how easy or difficult it is to exit).

So to determine the Rate of Return on Equity, all the required returns allocated to each of the identified factors are added. One popular representation of build up model is:

$$r_e = r_f + ERP + \text{size premium} + \text{specific company premium} \dots \text{(Equation - 3)}$$

The key advantage of this model is that one can actively identify the factors contributing to the Rate of Return on Equity and charge for risks according to one's perception. However, it is very subjective in nature as specific factors viz. size premium and specific company premium will vary according to the perception.

In view of the wide application and its acceptability while calculating the Rate of Return on Equity as also being followed by many authorities in India as well as other country, CAPM method has been used for computation of Rate of Return on Equity for investor on its investment in Indian airport sector.

4. Determination of Rate of Return on Equity

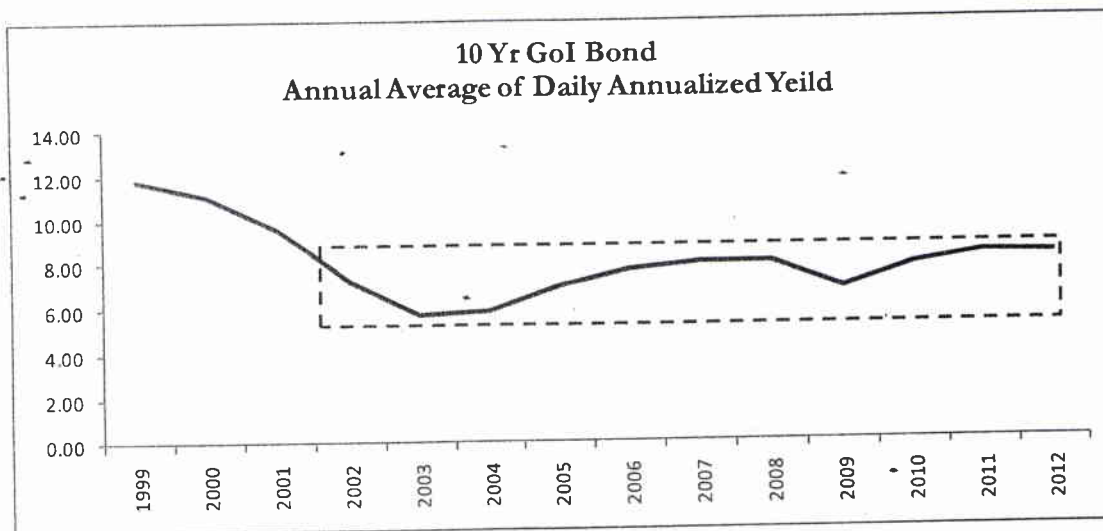
As discussed, CAPM method has been used for determination of Rate of Return on Equity. As explained in previous chapter, the factors considered in CAPM model are (a) **Risk Free Rate**; (b) **Equity Risk Premium**; and (c) **Beta**. The basis of calculation of these factors is discussed below:

4.1 Risk Free Rate

The Risk Free Rate is regarded as nominal rate of return expected from a risk free asset which has no default risk and no reinvestment risk. To determine the Risk Free Rate in practice, average yield on safe and liquid instruments that have negligible risks are considered. For the purpose of calculation herein, yield on 10-year Government of India Bonds which is most liquid and most traded long tenor Government of India security has been considered.

The Annual Average of Daily Annualized Yield on 10-Year Government of India Bonds for last 13 years (data in Bloomberg is available only after November 1998) is plotted in the graph below.

Figure 1: Annual Average of Daily Annualized Yield



(Source: Bloomberg and SBICAP's Analysis)

As can be observed, the Annual Average of Daily Annualized Yield decreased continuously till 2002 before it showed an upward trend. Also, it is observed that movement of yield between 2002 – 2011

reflects a range bound movement. Further, Average of Daily Annualized Yield calculated for different time period is given in table below:

Table 2: Average of Daily Annualized Yield

Period From	Period to	No. of Yrs	Average of Daily Annualized Yield
1-Feb-07	31-Jan-12	5	7.80%
1-Feb-02	31-Jan-12	10	7.19%
1-Feb-99	31-Jan-12	13	8.02%

The average of Daily Annualized Yields for different time period (1 year – 13 year) is given below:

Table 3: Average of Daily Annualized Yield during different time period

Period From	Period to	No. of Yrs	Avg. Yield for period
1-Feb-11	31-Jan-12	1	8.34%
1-Feb-10	31-Jan-12	2	8.11%
1-Feb-09	31-Jan-12	3	7.74%
1-Feb-08	31-Jan-12	4	7.76%
1-Feb-07	31-Jan-12	5	7.80%
1-Feb-06	31-Jan-12	6	7.78%
1-Feb-05	31-Jan-12	7	7.65%
1-Feb-04	31-Jan-12	8	7.42%
1-Feb-03	31-Jan-12	9	7.20%
1-Feb-02	31-Jan-12	10	7.19%
1-Feb-01	31-Jan-12	11	7.41%
1-Feb-00	31-Jan-12	12	7.72%
1-Feb-99	31-Jan-12	13	8.02%
Average			7.70%

As can be seen, the Average of Daily Annualized Yield for different time period is in the range of 7.19% - 8.02%. A scenario analysis has been undertaken considering risk free return for different time period in order to analyse the Rate of Return on Equity.

4.2 Equity Risk Premium (ERP)

Equity Risk Premium measures the “extra return” that would be expected by an equity investor over and above the risk free rate to compensate for additional risk associated with investment in

equity instead of investing in risk free assets. The Equity Risk Premium is expressed as the difference between market return on stocks and Risk Free Rate of return.

There are three broad approaches used to estimate ERP. One is to survey subsets of investors and managers to get a sense of their expectations about equity returns in the future. The second is to assess the returns earned in the past on equities relative to riskless investments and use this historical premium as the expectation. The third is to attempt to estimate a forward-looking premium based on the market rates or prices which is categorized as implied premiums.

However, for the purpose of analysis herein, following two approaches have been considered:

- a. Historical Estimates
- b. Implied Premiums

a. **Historical estimates:** The historical estimate of ERP is the difference between the historical mean return for an equity-market index and a risk-free rate over a given time period. The strength of this estimate is its objectivity, simplicity and the same being unbiased.

In order to estimate ERP using this approach, total market return earned on an equity-market index over a **long term period** is estimated and compared with risk free rate. Generally, it is agreed that longer period should be considered to mitigate the impacts of volatilities of equity market.

In India, Sensex index of Bombay Stock Exchange (“BSE”) is the oldest equity index which was first compiled in 1986 and the-year 1978-79 was considered as the base year. However, the returns during 1978 – 1991 do not represent the fair scenario the capital market was in nascent stage. In order to estimate the market return using this approach, the return (CAGR) on Sensex index during different time period viz. 10 year, 13 year and 21 years have been analyzed based on information available for period starting February 1991 being the period consequent to announcement of economic reforms. Market return has also been calculated using the data of return on Nifty index of National Stock Exchange for 10 years and 13 years. Nifty index came into existence only in 1994.

The Summary is as under:

Table 4: Summary of ERP estimate

BSE - Sensex Index

Start Date	End Date	Years	Opening Value	Closing Value	CAGR	Div. Yield	r_m	r_f	ERP
1-Feb-91	31-Jan-12	21	1,022	17,194	14.39%	1.42%	15.81%	7.19%	8.62%
1-Feb-99	31-Jan-12	13	3,266	17,194	13.63%	1.53%	15.15%	8.02%	7.13%
1-Feb-02	31-Jan-12	10	3,334	17,194	17.83%	1.55%	19.37%	7.19%	12.18%

NSE - Nifty Index

1-Feb-99	31-Jan-12	13	940	5,199	14.06%	1.48%	15.54%	8.02%	7.52%
1-Feb-02	31-Jan-12	10	1,082	5,199	17.00%	1.55%	18.55%	7.19%	11.36%

Source: Data from website of Bombay Stock Exchange, National Stock Exchange and SBICAP analysis.

Notes:

- i. r_m (market return) is calculated by analyzing change in market index value during different time period (price escalation) and by adding average dividend yield as computed for such period.
- ii. Market return for 10 and 13 year period is calculated to have comparable period as available for r_f data.
- iii. Data for Nifty index is available only from 1994 and as such 21 year comparison is not possible.

As can be seen the ERP calculated based on the 13 and 21 year are comparable and that of 10 year is abnormally high.

- b. **Implied Premiums:** These estimates use current information and expectations concerning the economic and financial variables to estimate the forward looking ERP. Professor Aswath Damodaran⁵, professor of finance at the Stern School of Business at New York University has estimated ERP for various economies using implied risk premium.

⁵ Professor Damodaran is widely quoted on the subject of valuation. He is best known as author of several widely used academic and practitioner texts on valuation, corporate finance and investment management

As per Professor Aswath Damodaran paper on “Estimating Equity Risk Premiums”, ERP can be calculated adding adjusted country risk premium for India to ERP estimates for a country having matured equity market (United States).

The equation used by Professor Damodaran is as follows:

$$\text{ERP} = \text{ERP of matured equity market} + \text{adjusted country risk premium} \quad \dots \text{eq - 4)}$$

- i. **Base Premium for Mature Equity Market** – Professor Damodaran has estimated an equity risk premium of 6% for matured equity market of United States, obtained from implied premium for S&P 500 index of United States. Implied premium is calculated by determining discounting factor to equate closing value of S&P index at a date with future expected returns (assuming a dividend yield based on historical data and expected growth rate).
- ii. **Adjusted Country Premium** – Professor Damodaran has estimated an adjusted country premium of 300 bps for India, derived by multiplying the adjusted default spread of 200 bps of India (linked to India rating of Baa3 by Moody) with 1.5 (a factor representing equity market volatility against country bond market).

Accordingly, the ERP has been estimated at 9%⁶ by Professor Damodaran which is close to ERP estimates as derived in Approach 1. This estimate has also been used as a scenario for analysis.

4.3 Beta

Beta is the measurement of systematic risk or non diversifiable risk of particular investment. In simple words it is a measure of performance of an asset in comparison to the performance of market as a whole. It is expressed as under:

$$\text{Beta} = \text{Cov}(r_a, r_m) / \text{Var}(r_m) \quad \dots \text{eq - 5)}$$

Where

- r_a measures the rate of return of the asset; and
- r_m measures the rate of return of the equity market

⁶ Source: Updated data for January 2012 from http://pages.stern.nyu.edu/~adamodar/New_Home_Page/datafile/ctryprem.html

As there are no listed airports in India, proxy Asset Beta based on the average of Adjusted Asset Beta of listed airports globally has been considered. The following steps have been carried out to estimate the value of proxy Asset Beta for airport sector in India:

- A data set of 24 listed airports as mentioned in Table 5 with a history of 5 years or more around the world is formed based on the information available from Bloomberg (hereinafter referred to as the 'Data Set'). A brief snapshot of these airports is mentioned in Annexure. The Airport operators in the sample are further categorized under two categories: (a) mature market; and (b) emerging market.
- Adjusted Equity Beta estimates are sourced from Bloomberg using 5 year weekly return data as considered generally.
- Adjusted Equity Beta is unlevered using average Debt to Equity ratio ("DER") based on information available during last five years (February 2007 to January 2012) to estimate Adjusted Asset Beta. Following equation is used to un-lever Adjusted-Equity Beta.

$$\text{Adjusted Equity Beta} = \text{Adjusted Asset Beta} * [1 + (1 - \text{tax rate}) \text{Debt/Equity}] \quad \dots \text{eq - 6}$$

- An attempt has also been made to calculate Average Adjusted Asset Beta using Adjusted Equity Beta based on 10 years return data unlevered using Average DER computed based on data available for such period. There were some limitations in sourcing DER at different point of time in 10 year period and also few of the airports in Data set have history of less than 10 years. However, using the data of DER to the extent available and including airports with history of less than 10 years, the Average Adjusted Asset Beta as estimated is approximately same (when rounded off to two decimal place) as estimated based on 5 year data.

Table 5: Detailed calculation of Adjusted Asset Beta

Country	Airport	5 Year			Adjusted β Asset	Tax Rate
		Adjusted β Equity	DER	DER		
		Emerging Market				
	Beijing Capital International Airport Co. Ltd.	1.196	1.050	0.67	25%	
	Guangzhou Baiyun International Airport Co. Ltd.	0.842	0.142	0.76	25%	
	Shanghai International Airport Co. Ltd.	0.961	0.235	0.82	25%	
	Xiamen International Airport Co. Ltd.	0.784	0.003	0.78	25%	
	Shenzen Airport co. Ltd.	0.854	0.027	0.84	25%	
	Hainan Meilan International Airport Co. Ltd.	0.805	0.033	0.79	25%	
	Grupo Aeroportuario del Centro Norte SAB De CV	0.819	0.131	0.75	30%	
	Grupo Aeroportuario del Pacifico SAB	0.783	0.042	0.76	30%	
	Grupo Aeroportuario del Sureste SAB de CV	0.643	0.047	0.62	30%	
	Malaysia Airport Holdings Berhad	0.891	0.284	0.74	30%	
	Airports of Thailand PCL	1.111	0.832	0.70	30%	
	TAV Havalimanlari Holding AS	0.893	2.765	0.28	20%	
	Average – Emerging Market			0.71		
		Mature Market				
	Flughafen Wien AG (Vienna International Airport)	0.825	0.835	0.507	25%	
	Flughafen Zuerich AG (Zurich Airport)	0.761	0.826	0.463	22%	
	Fraport AG Frankfurt Airport Services Worldwide	0.891	1.173	0.499	33%	
	Gemina SpA	0.992	0.923	0.607	31%	
	Aeroporto di Venezia Marco Polo SpA	0.687	0.396	0.540	31%	
	Aeroporto di Firenze SpA	0.412	0.289	0.344	31%	
	Societa Aeroporto Toscano Galilei SpA	0.498	0.193	0.440	31%	

Private & confidential

Country	Airport	Adjusted β Equity	5 Year DER	Adjusted β Asset	Tax Rate
New Zealand	Auckland International Airport Ltd.	1.038	0.536	0.755	30%
France	Aeroport de Paris	0.916	0.878	0.577	33%
Denmark	Kobenhavns Lufthavne (Copenhagen Airport)	0.531	1.012	0.302	25%
Japan	Japan Airport Terminal Co. Ltd.	0.766	0.447	0.605	41%
Australia	Sydney Airport Corporation Ltd.	0.989	1.114	0.556	30%
Average - Mature Market				0.52	
Average - Overall				0.61	

(Source: Bloomberg and SBI/CAP analysts)

Private & confidential

- Summary of average Adjusted Asset Beta estimates is shown below:

Table 6: Summary of average Adjusted Asset Beta

Particulars	5 Year Adjusted Asset Beta
Emerging Market	0.71
Mature Market	0.52
Overall Market	0.61

- Considering the limitations in sourcing data for 10 year Beta analysis, estimates as derived using 5 year data is assumed for analysis herein.

Since, India is an emerging economy; proxy Asset Beta estimate for Indian Airport Sector has been arrived based on the average of Adjusted Asset Beta of listed airports in emerging market.

- An attempt has also been made to compare the above estimated proxy Asset Beta for airport sector in India with asset beta (based on 5 year period) of other infrastructure companies listed in India.

Table 7: Adjusted Asset Beta in other infrastructure sectors

Particulars	Adjusted Asset Beta
Power	
Tata Power Company Limited	0.51
NTPC Limited	0.54
Gujarat Industries Power Company Limited	0.62
Jaiprakash Power Venture Limited	0.59
Torrent Power Limited	0.63
NHPC Limited	0.55
CESC Limited	0.69
Average	0.59
Telecom	
Bharati Airtel Limited	0.61
Idea Cellular Limited	0.56
Reliance Communication Limited	0.81
Tata Teleservices Maharashtra Limited	0.98
MTNL Limited	0.84
Average	0.76
Roads	
Noida Toll Bridge Company Limited	0.84
Ports	
Adani Ports and Special Economic Zone Limited	0.60

As can be observed from the above table, the proxy Asset Beta estimated for airport sector in India can be considered comparable with the adjusted asset beta of the other listed infrastructure players in India.

5. Risk Analysis

The major risks as could be associated with airport sector have been presented in the table below:

Risk Factor	Description
Construction	<ul style="list-style-type: none"> Appropriate development planning is critical to ensure following: <ul style="list-style-type: none"> ✓ Timely completion of construction; ✓ Mitigate chances of cost escalation; ✓ Development of asset in accordance with applicable standards; ✓ Ensure optimum utilisation of assets;
Land Acquisition	<ul style="list-style-type: none"> Availability of total land as required is utmost critical to avoid delays in completion Since construction period in infrastructure is generally long, any delay in acquisition of land has a significant impact on implementation
Environmental Clearances and other approvals	<ul style="list-style-type: none"> Delay in procuring environment clearance and other approvals cause delays in achieving financial closure and starting of construction works
Funding Risk	<ul style="list-style-type: none"> Unprecedented growth in air traffic has necessitated huge capital investment in creation of additional capacities. Debt funding in India is generally available for a tenor of 10 – 15 years as against long concession period of 30 years or more.
Traffic Risk	<ul style="list-style-type: none"> The airport industry in India operates in a very dynamic environment. Traffic at airport comprises of passengers, cargo and air traffic movements. In India, passenger traffic comprises of majority of domestic traffic and is mainly confined to six major airports. Demand is very volatile and highly sensitive to prices of tickets. Any economic slowdown, increase in air ticket prices, increase in fuel charges is likely to affect the traffic growth significantly thereby impacting the airport revenue and profitability
Airlines financial condition	<ul style="list-style-type: none"> Current financial performance/ status of airlines will have an impact on the overall airport sector.
Regulatory Risk	<ul style="list-style-type: none"> India Airport sector is in initial stage of regulation.
Political Risk	<ul style="list-style-type: none"> In the current political scenario, a high risk is generally perceived in relation to policy framework, coordination between centre and state administration.
Competition Risk	<ul style="list-style-type: none"> Airport development requires huge capital investment upfront with returns accruing over a long period. Development of new airport around an existing airport without proper due diligence is likely to impact the existing airport and may jeopardize the profitability or returns for the investor

Security risks
Liability issues

Infrastructure sector and / or various companies within a particular sector are generally exposed to many risks relating to development, construction, funding, operations and management, demand/ traffic/ market, regulatory risk, termination payment, competition and political risks etc. However, the weight as could be allocated to a specific risk based on its possible impact on sector or company varies across sectors and amongst different companies within a sector.

Asset Beta as can be computed for an individual company or a sector as whole is a fair representative of risk and return relationship as exist in any company or sector. The Beta for airport sector as arrived when compared to other infrastructure sub sectors brings out the comparable degree of risk.

6. Computation of Rate of Return on Equity

In order to estimate the Rate of Return on Equity, the Adjusted Asset Beta is required to be re-levered using a target DER for the sector to arrive at the Adjusted Equity Beta. Higher debt in a capital structure increases the expected Rate of Return on Equity which is reflected in increase in the value of Adjusted Equity Beta.

Average DER of listed airport in emerging markets in the Data Set over a period of 5 years is estimated at 0.47:1. However, the same may not reflect the target DER for India, as infrastructure projects in India are generally financed at a much higher DER. In this context a comparable could be brought out by taking into account the fact that a notional DER of 1.5:1 has been considered by regulators⁷ of Sydney airport and Heathrow airport for determination of cost of equity.

In Indian context, project financing is happening normally in the range of 1:1 to 2:1 taking into account various risk associated with the project, sector, sponsor, financing structure with inclusions of instruments other than pure debt or equity. Considering the nature of investments and risk profile of airport sector a target DER of 1.5:1 has been assumed to arrive at the estimated Rate of Return on Equity for investment in Indian airport sector. Accordingly, the proxy Asset Beta of 0.71 for airports as arrived in earlier chapter is levered by DER of 1.5:1 to arrive at adjusted levered Beta (Adjusted Equity Beta) for Indian Airports at 1.43.

Considering generally accepted principles that market return and risk free rate be based on average of long period to ensure mitigation of volatilities attached to such data, risk free rate as estimated based on average of daily annualized yield of 10 year GOI bond over a period of 10 years (period reflecting a range bound movement) and market return as calculated during a period of 21 years post reforms for Sensex index could be considered reasonable for estimation of Rate of Return on Equity. Accordingly the same works out to 19.52% (say 19.5%) as shown below:

⁷ "Economic Regulation of Heathrow and Gatwick Airports (2008-2013)" – UK Civil Aviation Authority (CAA) decision dt. 11 March 2008 and "Aeronautical Pricing Proposal" – Australian Competition and Consumer Commission's decision for Sydney Airports Corporation Limited in May 2001.

Table 8: Rate of Return on Equity

Particulars	Value
r_f	7.19%
r_m	15.81%
ERP	8.62%
β_a^*	0.71
DER	1.50
$\beta_e^\#$	1.43
r_e	19.52%

* β_a - Adjusted Asset Beta

β_e - Adjusted Equity Beta

- However, taking into account the variation in the airports across the vast country like India in terms of capacity, size, location, classification, capital structure, risks perception etc., *it may be prudent that concerned authorities have flexibility of fixing Rate of Return on Equity investments, for the airport project as a whole, within a range. For the present purpose, a range of (\pm) 5% i.e. 18.5% to 20.5% could be considered reasonable.*

A scenario analysis has been done through a spectrum of variables to calculate the Rate of Return on Equity. The scenario analysis is given below:

Table 9: Rate of Return on Equity - Scenario Analysis

r_f / r_m	15.25%	15.50%	15.81%	16.00%	16.25%
7.00%	18.80%	19.16%	19.60%	19.87%	20.23%
7.19%	18.72%	19.07%	19.52%	19.79%	20.15%
7.50%	18.58%	18.94%	19.38%	19.66%	20.01%
8.02%	18.36%	18.72%	19.16%	19.43%	19.79%
8.34%	18.22%	18.58%	19.02%	19.29%	19.65%

Note:-ERP movement between 6.91% to 9.25%

- As can be seen from the above scenario analysis, using different variables as discussed in previous chapter, the Rate of Return is ranging between 18.22% to 20.23% and the same is comparable to the range as recommended above.

7. Rate of Return prevalent in other Infrastructure Sectors

The return in other infrastructure sectors in India as allowed / recommended by respective regulators / committees are summarized below:

7.1 Roads & Highways

B.K. Chaturvedi Committee on National Highway Development Programme as constituted by Prime Minister of India on August 8, 2009 had recommended equity Internal Rate of Return (IRR) of 18% in respect of projects undertaken on Build, Operate, Transfer (Annuity) basis. Further in case of difficult areas a higher IRR of 21% is recommended

7.2 Power

Central Electricity Regulatory Commission (Terms and Conditions of Tariff) Regulations, 2009 dated January 19, 2009 provide regulations for tariffs determination for a power generating station (other than those based on non-conventional energy sources) and the transmission system in India. As per clause 15 of the regulation return on equity shall be computed on equity base on pre tax basis at the base rate of 16% to be grossed up for normal applicable tax rate.

7.3 Ports

Guidelines for upfront tariff setting for port projects (undertaken on PPP basis) at Major Port Trusts, 2008 as provided by Tariff Authority for Major Ports provide for allowance of fair rate of return on capital employed on capital cost. At present, the norm for determining the quantum of return on capital employed is 16%.

7.4 Oil and Gas

Petroleum and Natural Gas Regulatory Board (Determination of Network Tariff for City or Local Natural Gas Distribution Network and Compression Charge for CNG) Regulations 2008, its schedule A point no. 3 provides for a reasonable rate of return on capital employed equal to 14%.

The tabular presentation of above provisions is given below:

Table 10: Return allowed in other infrastructure sectors

Sector	Return on Equity	Source
Roads & Highways	18%	B. K Chaturvedi Committee's recommendations (November 05, 2009): <ul style="list-style-type: none">• Acceptable Equity Internal Rate of Return ("IRR") of 18% in annuity projects• Higher Equity IRR of 21% acceptable in difficult areas
Power	16% ⁸	Central Electricity Regulatory Commission Regulations dated January 19, 2009 (No. L-7/145 (160)/2008 – CERC)
Ports	ROCE ¹ =16%	Tariff Authority for Major Ports dated February 26, 2008
Oil & Gas	ROCE ¹ = 14%	Notification by Petroleum and Natural Gas Regulatory Board dated March 19, 2008 in relation to city gas distribution network

Notes:

1. ROCE is return on capital (debt + equity) employed. Rate of Return on Equity is higher than ROCE depending upon efficiency of capital structure.
2. The returns indicated above are normally the maximum returns allowed in a sector and are not reflective of actual return achieved by an equity investor which is discovered through bidding process for each project.

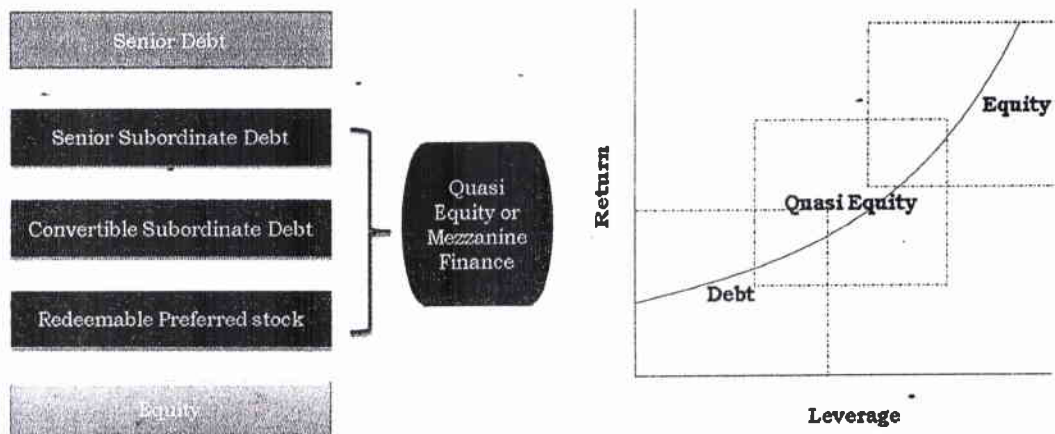
⁸ For projects commissioned on or after 1st April, 2009 and are completed within specified time. Otherwise return on equity is 15.50%.

8. Determination of Rate of Return on Quasi Equity

Quasi equity is defined as “a form of finance taken on by a company that has some traits of equity, such as having flexible repayment options or being unsecured”.

Examples of quasi-equity include mezzanine debt and subordinated debt. Quasi equity is also sometimes known as **mezzanine finance**. There are different instruments which are under the purview of mezzanine finance though the common characteristics of all mezzanine finance instruments are that they offer a risk/return profile that lies above that of debt and below that of equity. It fills the gap between the senior debt and equity in the capital structure of the company.

Figure 2: Quasi Equity Instruments and Expected Return



The cost of a ‘Quasi Equity’ instrument would vary from each other because of difference in risk being shared, security offered, payment terms etc. *Therefore in order to determine cost of a particular quasi equity instrument, it would be necessary to analyze the details of transaction and underlying agreements.*

9. Conclusion

Airports play a significant role in globalization, connecting cities and countries. Airports are a major part of a country's infrastructure and foster economic activities by encouraging international commerce, tourism and generating employment.

Airports Authority of India has appointed SBI Capital Markets Limited for providing an opinion on the Fair Rate of Return on 'Equity' and 'Quasi Equity' for investor on its investment in airports. SBICAP has estimated the Fair Rate of Return on 'Equity' based on the Capital Asset Pricing Model (CAPM). SBICAP has also analyzed the return considered by various Government authorities in other infrastructure sector while estimating the Rate of Return on equity for Indian airport sector. The rate of return on 'Quasi Equity' would depend on the type and features of instruments being used for such form of finance.

The Rate of Return on Equity based on the estimates of various factors as detailed in earlier chapter works out to about 19.5%. However, taking into account the variation in the airports in terms of capacity, size, location, classification, capital structure, risks perception etc., *it may be prudent that concerned authorities have flexibility of fixing Rate of Return on Equity investments, for the airport project as a whole, within a range. For the present purpose, a range of (\pm) 5% i.e. 18.5% to 20.5% could be considered reasonable.* It may be mentioned that the rate of return offered by Government agency is normally the maximum rate it would consider to allow for a sector and or a project in particular with actual return thereafter arrived through competitive price discovery mechanism.

A Rate of Return on Equity to an investor on its original investment in airport project may be considered taking into account the aggregate returns from the project and efficiencies of the financing structures in the order of range as above. The specific return for any particular airport project may be considered taking into account the following factors:

- ✓ Micro level scenarios in relation to risks and capital structure of any airport;
- ✓ Need to attract private investment considering the limited budgetary resources of Government to finance the development of airport infrastructure;
- ✓ User fee / airport charges which could be passed on to user; and
- ✓ Overall viability of airport;

SBI Capital Markets Limited

February 2012

Annexure

Brief Profile of Airports considered in Data set

1. Beijing Capital International Airport Co Ltd (China)

Beijing Capital International Airport Co. Limited operates both aeronautical and non-aeronautical business in the Beijing airport. The Company provides aircraft movement and passenger service facilities, safety and security services, fire-fighting services, and ground handling services. In addition, it operates duty free and other retail shops and leases properties.

2. Guangzhou Baiyun International Airport Co Ltd (China)

Guangzhou Baiyun International Airport Co. Limited operates the Guangzhou Baiyun International Airport and provides related transportation services, including ground, passenger, storage, airplane maintenance and repair, and other services. The Company also provides food, space rental, and advertising services.

3. Shanghai International Airport Co Ltd (China)

Shanghai International Airport Co. Ltd. operates Pudong Airport in Shanghai. The Company provides a full range of services including air traffic control, terminal management, cargo handling, advertising, space rental, and other related services.

4. Xiamen International Airport Co Ltd (China)

Xiamen International Airport Co. Ltd. operates and maintains Gaoqi Airport. The Company provides terminal transportation service, maintains airport waiting halls, operates airport shopping malls, as well as offers advertising and airport mechanical engineering services.

5. Shenzhen Airport Co. Ltd.

Shenzhen Airport Co. Ltd. is principally engaged in the operation of Shenzhen Airport, China. The Company operates its businesses through aviation guarantee and airport services, aviation logistics business and aviation value-added services.

6. Hainan Meilan International Airport Co Ltd (China)

Hainan Meilan International Airport Company Limited provides airfield services, terminal facilities, ground handling services, passenger and cargo handling services. The Company also leases commercial and retail space at the Meilan Airport, operates airport-related business franchising, advertising, car parking, tourism services, and sells duty-free and consumable goods.

7. Grupo Aeroportuario del Centro Norte SAB de CV (Mexico)

Grupo Aeroportuario del Centro Norte, S.A.B. de C.V. (OMA) operates international airports in the northern and central regions of Mexico. The airports serve Monterrey, Acapulco, Mazatlan, Zihuatanejo and several other regional centers and border cities.

8. Grupo Aeroportuario del Pacifico SAB de CV (Mexico)

Grupo Aeroportuario del Pacifico SAB de CV operates and maintains airports in the Pacific and central regions of Mexico.

9. Grupo Aeroportuario del Sureste SAB de CV (Mexico)

Grupo Aeroportuario del Sureste S.A.B. de C.V. operates airports in Mexico. The Company holds 50 year concessions, beginning in 1998, to manage airports in Cancun, Cozumel, Merida, Oaxaca, Veracruz, Huatulco, Tapachula, Minatitlan, and Villahermosa.

10. Malaysia Airports Holdings Bhd (Malaysia)

Malaysia Airports Holdings Berhad is an investment holding company. The Company, through its subsidiaries, provides management, maintenance, and operation of designated airports. Malaysia Airports also operates duty-free and non-duty free stores as well as provides food and beverage outlets at the airports.

11. Airports of Thailand PCL (Thailand)

Airports of Thailand Public Company Ltd. operates the Bangkok International Airport (Don Muang). The Company also operates provincial airports in Chiang Mai, Chiang Rai, Hat Yai, and Phuket. It is developing the New Bangkok International Airport (Suvarnabhumi).

12. TAV Havalimanlari Holding AS (Turkey)

TAV Havalimanlari Holding AS operates terminals at airports in Turkey and Georgia. Through subsidiaries, the Company offers terminal, duty-free, group handling, catering, and other services.

13. Flughafen Wien AG (Austria)

Flughafen Wien AG manages, maintains, and operates the Vienna International Airport and the Voslau Airfield. The Company offers terminal services, air-side and land-side cargo handling, and the leasing of store, restaurant, and hotel airport building space to third party operators and businesses.

14. Flughafen Zuerich AG (Switzerland)

Flughafen Zuerich AG operates the Zurich Airport. The Company constructs, leases, and maintains airport structures and equipment.

15. Fraport AG Frankfurt Airport Services Worldwide (Germany)

Fraport AG Frankfurt Airport Services Worldwide (Fraport) offers airport services. The Company operates the Frankfurt-Main, Frankfurt-Hahn and other airports in Germany, the airport in Lima, Peru, and the international terminal in Antalya, Turkey. Fraport also provides services to domestic and international carriers including traffic and terminal management, ground handling, security, and real estate and facility management.

16. Gemina S.p.A (Italy)

Gemina S.p.A. is a holding company. The Company's subsidiaries are active in the operation of airports, duty free shops, helicopter rescue services, parking facilities, advertising, catering, and subletting in Italy. Gemina's aviation activities include airport rights, handling, security and other services.

17. Aeroporto di Venezia Marco Polo S.p.A - SAVE (Italy)

SAVE S.p.A operates the Marco Polo Airport in Venice, Italy. The Company operates through a concession from Italy's Ministry of Transport.

18. Aeroporto di Firenze SpA (Italy)

Aeroporto di Firenze S.p.A. manages the Amerigo Vespucci Airport in Florence, Italy. The Company derives revenues from fees from airlines, renting retail spaces, concessionaires such as car rental firms and shuttle bus operators, and advertising.

19. Societa Aeroporto Toscano Galileo Galilei SpA (Italy)

Societa Aeroporto Toscano S.p.A. manages the Galileo Galilei Airport in Pisa, Italy. The Company manages and finances the total development of the airport.

20. Auckland International Airport Ltd (New Zealand)

Auckland International Airport Limited owns and operates the Auckland International Airport. The Airport includes a single runway, an international terminal and two domestic terminals. The Airport also has commercial facilities which include airfreight operations, car rental services, commercial banking center and office buildings.

21. Aeroports de Paris (France)

Aeroports de Paris (ADP) manages all the civil airports in the Paris area. The Company also develops and operates light aircraft aerodromes. ADP offers air transport related services, and business services such as office rental.

22. Kobenhavns Lufthavne (Denmark)

Kobenhavns Lufthavne A/S (Copenhagen Airports A/S - CPH) owns and operates Kastrup, the international airport in Copenhagen, and Roskilde airport. The Company provides traffic management, maintenance, and security services, as well as manages the airport shopping Center and airport projects. Kobenhavns Lufthavne also has investments in airports in Mexico, England, and China.

23. Japan Airport Terminal Co Ltd (Japan)

Japan Airport Terminal Company Limited constructs, manages and maintains passenger terminals and airport facilities at Haneda and Narita airports. The Company operates parking-lots, souvenir shops, and duty-free stores. Japan Airport Terminal, through its subsidiaries, manages restaurants and in-flight meal services.

24. Sydney Airport Corporation Limited (Australia)

Sydney Airport Corporations Limited operates the Sydney airport in Australia. The Company develops and maintains the airport infrastructure and leases terminal space to airlines and retailers.



5th Annual Report 2007-08



GMR Hyderabad International Airport Limited



Board of Directors

Mr. G.M. Rao, Chairman
Mr. Kiran Kumar Grandhi, Managing Director
Mr. B.V. Nageswara Rao
Mr. Srinivas Bommidala
Dato' Bashir Ahmad bin Abdul Majid
Mr. K. Balasubramanian
Mr. P. Ramakanth Reddy, IAS
Mr. T. Chatterjee, IAS
Mr. V. P. Agrawal
Ms. Anna Roy
Prof. Rigas Doganis
Mr. R.S.S.L.N. Bhaskarudu

Mr. T.S. Appa Rao, IAS
(alternate to Mr. P. Ramakanth Reddy, IAS)
Mr. K. Brahmananda Reddy, IRAS
(alternate to Mr. T. Chatterjee, IAS)
Dato' Abd. Hamid bin Mohd Ali
(alternate to Dato' Bashir Ahmad bin Abdul Majid)
Mr. G. B. S. Raju
(alternate to Prof. Rigas Doganis)

CFO & Company Secretary

Mr. Rajgopal Swami

Auditors

M/s Price Waterhouse
Chartered Accountants
#8-2-293/82/A/1131A
Road No.36, Jubilee Hills
Hyderabad – 500 034

Lending Banks & Financial Institutions

Abu Dhabi Commercial Bank
Allahabad Bank
Andhra Bank
Bank of Baroda
Canara Bank
IDBI Bank Ltd
Infrastructure Development Finance Company Ltd.
Oriental Bank of Commerce
State Bank of Hyderabad
Vijaya Bank

Registered Office:

#8-2-120/112/88 & 89, III Floor, Aparna Crest, Banjara Hills
Road No.2, Hyderabad – 500 034

Airport Office:

Shamshabad, Ranga Reddy District, Andhra Pradesh, India – 501 218

NOTICE TO THE MEMBERS OF THE FIFTH ANNUAL GENERAL MEETING OF THE COMPANY

Notice is hereby given that the **Fifth Annual General Meeting** of the Members of GMR Hyderabad International Airport Limited will be held on **Friday, the 27th June, 2008** at 12.00 Noon at the Registered Office of the Company at 8-2-120/112/88 & 89, III Floor, Aparna Crest Road No 2, Banjara Hills, Hyderabad 500 034 to transact the following business.

ORDINARY BUSINESS

1. To receive, consider and adopt the Profit and Loss Account for the period March 23, 2008 to March 31, 2008, the Balance Sheet as at March 31, 2008 together with Annexures thereto for the period ended on that date, and the reports of the Directors and Auditors thereon.
2. To appoint a Director in place of Mr. P Ramakanth Reddy, who retires by rotation and, being eligible, offers himself for reappointment.
3. To appoint a Director in place of Mr. R S S L N Bhaskarudu, Director, who retires by rotation and, being eligible, offers himself for reappointment.
4. To appoint a Director in place of Mr. Srinivas Bommidala, Director, who retires by rotation and, being eligible, offers himself for reappointment.
5. To appoint M/s Price Waterhouse, Chartered Accountants, Hyderabad, as the Statutory Auditors of the Company to hold office from the conclusion of this meeting until the conclusion of the next Annual General Meeting of the Company and to authorize the Board to fix their remuneration and pass the following resolution as a Special Resolution;

"RESOLVED THAT pursuant to Section 224A of the Companies Act, 1956, if applicable, M/s Price Waterhouse, Chartered Accountants, Hyderabad, be and are hereby appointed as Statutory Auditors of the Company for the financial year 2008-09 from the conclusion of this Annual General Meeting till the conclusion of the next Annual General Meeting on such remuneration as may be determined by the Board of Directors."

SPECIAL BUSINESS

6. To consider and if thought fit, to pass the following resolution as an ordinary Resolution;

"RESOLVED THAT Ms. Anna Roy, be and is hereby appointed as a Director, subject to retirement by rotation."

By Order Of the Board

Sd/-

Rajgopal Swami

Chief Financial Officer &
Company Secretary

Place: Hyderabad
Date: May 14, 2008

Notes

1. A Member, entitled to attend and vote at the Meeting is entitled to appoint a proxy to attend and vote in his stead and such proxy need not be a member of the Company. Proxies, in order to be effective, must be deposited at the Registered Office of the Company not less than forty eight hours before the commencement of the Meeting.
2. The relevant Explanatory statement under Section 173 of the Companies Act, 1956 in respect of Special business under item No. 6 is annexed hereto.

ANNEXURE TO NOTICE

Explanatory Statement pursuant to Section 173 of the Companies Act, 1956

Item No. 6

Ms. Anna Roy was appointed as an Additional Director by the Board of Directors on October 13, 2007. She holds office as Director upto the date of the ensuing Annual General Meeting. Notice under Section 257 of the Companies Act, 1956, along with necessary deposit, has been received from a member of the Company proposing the candidature of Ms. Anna Roy as a Director.

Board recommends the resolution to the Members for approval.

None of the Directors except Ms. Anna Roy is interested in the resolution.

Inspection of Documents

The Documents pertaining to the Special Business will be available for inspection by any member at the Registered Office of the company between 11.00 a.m. to 4.00 p.m. on all working days till the date of the Fifth Annual General Meeting.

By Order Of the Board

Sd/-

Rajgopal Swami

Chief Financial Officer &
Company Secretary

Place: Hyderabad
Date: May 14, 2008

REPORT OF THE DIRECTORS' FOR THE FINANCIAL YEAR ENDED MARCH 31, 2008

To,
The Members,
GMR Hyderabad International Airport Limited

Your Directors have pleasure in presenting the Fifth Annual Report and the Audited Accounts for the year ended March 31, 2008, together with the Auditors' Report thereon. The company has drawn up its first Profit & Loss Account for a nine day period from March 23, 2008 to March 31, 2008.

Snapshot of activities for 2007-08

The year 2007 – 08 has been momentous for your company with the inauguration of the Rajiv Gandhi International Airport (RGIA) and commencement of commercial operations.

The financial year 2007-08 saw the following major activities

- Company commenced commercial operations on the 23rd March 2008, less than three years from the foundation stone laying.
- Company received formal notification from the Ministry of Civil Aviation on March 20, 2008 to commence operations from the 23rd March.
- two "proving flights" of Jet Airways and Kingfisher touched down on the 12th February 2008
- The Cargo complex set up by the company in joint venture with Menzies Aviation has also started commercial operations simultaneously on the 23rd March 2008
- Your company has implemented SAP and during December 2007, SAP went live at your company.
- Concessions to provide ground handling services were granted to Menzies Aviation - Bobba joint venture and Indian & AI – SATS Consortium
- Tenaga Parking India Pvt. Ltd was awarded the contract for managing the Car Park at the RGIA
- Your company has signed an agreement with Routes Development Group for hosting Routes Regional Asia 2009 networking event at Hyderabad

The First Six Weeks of Commercial Operations

The Rajiv Gandhi International Airport (RGIA) was inaugurated on the 14th March 2008 by Smt. Sonia Gandhi, Chairperson of the UPA.

Between the first concrete pour on 10th October, 2005 to the Airport Launch on the 14th March 2008, RGIA has been built to handle 12 mppa in a remarkably short period of less than three years.

The airport commenced operations on the 23rd March 2008 and has since successfully completed six weeks of commercial operations. During this period, a total of 9,27,000 passengers have travelled from / to Shamshabad and an average of 260 aircraft movements per day were recorded.

Lufthansa Flight LH752 from Frankfurt was the first commercial flight to land at the RGIA at 0025 IST on 23rd March 2008.

21 different airlines including 11 foreign airlines are currently operating from Shamshabad. Gulf Air would be added to the list of foreign airlines from July 01, 2008 and British Airways would commence flying to Shamshabad from October 27, 2008.

The fuel uplift at the airport has doubled over that at the Begumpet airport (from 550 kl per day to 1100 kl per day) owing to reduction in tax on the aviation fuel from 33% to 4% and 'open access' model.

The old Begumpet airport has been closed for all civil aviation operations effective midnight 22nd March 2008. Public Interest Litigations regarding the close down of the Begumpet airport are however still pending in the High Court of Andhra Pradesh.

Commercial and Business Development

As on March 31, 2008, the following are the major concessioners / stakeholders providing various facilities at the RGIA:

- Cargo Operations - GHIAL and Menzies Plc. Joint Venture
- Business Hotel – Accor with Novotel brand
- Flight Catering - LSG Sky Chef and Sky Gourmet
- Fuel Farm O & M – Reliance Industries
- Duty Free & Retail - Nuance and Shoppers Stop Joint Venture
- Management of Car Parking - Tenaga Parking India
- Airport Lounges – Plaza Premium, Hong Kong
- Ground Handling - Air India-SATS Joint Venture and Menzies Aviation-Bobba Joint Venture
- Airport Medical Centre inside PTB – Apollo Hospitals
- Advertising – Lakshya Media
- F&B – HMS Host and Blue Foods
- Bookstore – Landmark and Odyssey
- Telecom – Tata Teleservices
- Retail Fuel (non-aviation) – Bharat Petroleum
- Concession for foreign exchange - Travelex and Weizmann

Human Resources, Administration & Training Programs

Recruitment: Your company has standardized the recruitment process to strengthen its working team. During the year, 574 employees have been recruited. Currently your company employs 830 personnel.

Learning and Development: Your company provides opportunities to all its employees to attend training programs to hone their technical and behavioral skills. During the year under review, training on Airport Familiarization, Aviation Security, Service quality, Values & beliefs and various other functional aspects was provided by your company.

HR Automation through ERP: The following sub-modules of SAP HR have been implemented – Organisation Management, Personnel Administration, Time Management and Payroll.

Employee Relations: your company holds Town-Hall meetings as a platform for information sharing between management and employees on organizational plans, goals & objectives and project status. To convey a corporate identity and to establish & maintain professional norms, the GHIAL Corporate Uniform has been rolled-out.

Finance

As on the end of the March 31, 2008 your company has received majority of equity contributions and majority of the term loans have also been drawn down. During the financial year the company received an amount of Rs. 155.17 crores as share application money and an amount of Rs. 1010.40 crores was received as term loans.

During the year your Board has approved incurring of additional expenditure of Rs. 442 crores towards providing additional facilities at the Airport. The entire amount of Rs. 442 crores would be financed by means of debt and quasi debt. The total project cost after the addition of Rs. 442 crores amounts to Rs. 2920 crores.

Your company has drawn up its maiden Profit and Loss Account for a 9 day period i.e., March 23, 2008 to March 31, 2008. During this 9 days your company has registered a turnover of Rs. 5.96 crores. The expenditure incurred by the company during this period amounted to Rs.62.97 crores. The company suffered a net loss of Rs. 57.81 crores, owing to the write off of an amount of Rs. 26.62 crores of preliminary and preoperative project expenditure which is of revenue nature and not eligible to be capitalised.

Effective March 23, 2008, all the project related expenditure incurred since the incorporation of the company and being of capital nature and amounting to Rs. 2255.34 crores have been capitalised and is been represented and restated in the form of identifiable Fixed Assets.

Directors

During the year under review, Ms. Neelam Sanghi ceased to be a Director of the company. The Board places on record its appreciation for the services rendered by Ms. Neelam Sanghi during her tenure as a Director of the company.

Ms. Anna Roy was appointed as an Additional Director on the Board with effect from October 13, 2007 and holds office till the ensuing Annual General Meeting. A notice under Section 257 of the Companies Act, 1956 has been received from the member of the company, for her appointment.

Mr. P Ramakanth Reddy, Mr. R S S L N Bhaskarudu and Mr. Srinivas Bommidala, Directors of the company retire at the ensuing Annual General Meeting and being eligible offer themselves for re-appointment.

Composition and size of the Board of Directors

The present Board comprises of the following directors:

SI No	Name of the Director	Representing
1	Mr. G M Rao, Chairman	Sponsors
2	Mr. Kiran Kumar Grandhi, Managing Director	Sponsors
3	Mr. Srinivas Bommidala	Sponsors
4	Mr. B V Nageswara Rao	Sponsors
5	Prof. Rigas Doganis	Sponsors - Alternate Director - Mr. GBS Raju.
6	Mr. K Balasubramanian	Sponsors
7	Mr. P Ramakanth Reddy	Government of Andhra Pradesh - Alternate Director - Mr. T S Appa Rao
8	Mr. T Chatterjee	Government of Andhra Pradesh - Alternate Director - Mr. K Brahmananda Reddy.
9	Mr. V P Agrawal	Airports Authority of India
10	Ms. Anna Roy	Airports Authority of India
11	Dato' Bashir Ahmad Bin Abdul Majid	Sponsors - Alternate Director - Dato' Abd. Hamid bin Mohd Ali
12	Mr. R S S L N Bhaskarudu	Independent

Board Committees

Audit Committee

During the year, the Audit Committee of Board of Directors was reconstituted and presently comprises of the following Directors:

SI No	Name of Director
1	Mr. P Ramakanth Reddy, Chairman
2	Mr. Srinivas Bommidala, Member
3	Mr. B V Nageswara Rao, Member
4	Mr. K Balasubramanian, Member
5	Mr. R S S L N Bhaskarudu

Remuneration Committee

The Remuneration Committee comprises of the following Directors

SI No	Name of Director
1	Mr. P Ramakanth Reddy, Chairman
2	Mr. B V Nageswara Rao, Member
3	Mr. K Balasubramanian, Member

Shares Allotment and Shares Transfer Committee

The share allotment and share transfer committee comprises of the following Directors

SI No	Name of Director
1	Mr. Kiran Kumar Grandhi, Chairman
2	Mr. B V Nageswara Rao, Member
3	Mr. K Balasubramanian, Member
4	Mr. Srinivas Bommidala, Member

Environment

The Airport is striving to measure up to the norms of LEED (Leadership in Energy and Environmental Design). LEED is a certification programme drawn up in 2001 to define green construction, an initiative of the United States Green Building Council (USGBC) which is a coalition of builders, manufacturers of innovative green products, eco-sensitive architects, natural-resource-sensitive engineers and government groups promoting environmentally friendly buildings.

At RGIA, judicious use of materials with high recycled/recyclable content has been promoted in the terminal building and car park area. Contractors, too, were urged to meet LEED norms.

The design team targeted energy conservation measures, demand-side water management, rain water harvesting, recycling of waste-water and solid waste management.

Architecturally, glazing facades boasting good thermal performance were selected for building exteriors. Natural lighting during day time will save on energy costs. Integrated building management system (IBMS) reduces HVAC load & general lighting loads.

The Passenger Terminal Building's (PTB) central chilled water system uses secondary chilled water pumps with variable speed drives (VFDs) that save significant pumping energy during partial load operations. Start-ups maximise plant efficiency according to the PTB's cooling demands.

The Variable Air Volume (VAV) air-conditioning system's supply and return air fans with variable speed drives save power. The VAV systems, equipped with space carbon dioxide (CO2) sensors and fresh air quantity controls, regulate inputs for low occupancy conditions, reducing air conditioning energy consumption. They also run on the 'free cooling economiser mode,' that uses outdoor air when temperature and relative humidity conditions are below specified levels, thus preserving cooling energy.

Lighting controls, depending on occupancy use, are switched off by photo sensors when sufficient natural lighting is available through glazing and sky lights.

Directors' Responsibility Statement

Your directors confirm that

1. in the preparation of the annual accounts for the financial year ended 31st March, 2008, the applicable accounting standards have been followed along with proper explanation relating to material departures.
2. the Directors have selected such accounting policies and applied them consistently and made judgments and estimates that are reasonable and prudent so as to give a true and fair view of the state of affairs of the Company at the end of the financial year ended 31st March, 2008
3. the Directors have taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of the Companies Act, 1956 for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities
4. the Directors have prepared the accounts for the financial year ended 31st March, 2008 on a 'going concern' basis.

Company's Subsidiaries:

During the year under review, your company has incorporated the following five subsidiary companies:

Hyderabad Airport Security Services Limited: The Company was incorporated with the objective of providing certain security services at the Rajiv Gandhi International Airport. The company has undertaken the construction and maintenance of the office space and residential quarters for the CISF personnel and Phase I of the quarters and the office space have since been handed over to the CISF.

Hyderabad Airport Security Services Limited has an authorised share capital of Rs.13 crores comprising 1.3 crore equity shares of Rs. 10/- each and paid up share capital of Rs. 6.3 crores, comprising of 63 lakh equity shares of Rs. 10/- each and are wholly held by your company.

GMR Hyderabad Airport Resource Management Limited: The Company is incorporated with the objective of providing specialised and skilled manpower to the various allied and ancillary activities at the Rajiv Gandhi International Airport. The company currently provides 132 personnel specialised in the hospitality industry towards the Hotel operations of your company which are likely to commence during the financial year 2008-09.

GMR Hyderabad Airport Resource Management Limited has an authorised and paid up share capital of Rs. 5 lakhs comprising 50,000 equity shares or Rs. 10/- each and are wholly held by your company.

GMR Hyderabad Aerotropolis Limited: The Company was incorporated to engage in the business of property development in and around the Rajiv Gandhi International Airport. Lot of aviation linked business, time sensitive manufacture industries, hotel and entertainment industry is likely to get concentrated around the airport and the company proposes to engage in all this development activity. Detailed Master Planning and Infrastructure Planning for Commercial Property Development is currently being carried out by the company.

GMR Hyderabad Aerotropolis Limited has an authorised and paid up share capital of Rs.5 lakhs comprising 50,000 equity shares or Rs.10/- each and are wholly held by your company.

GMR Hyderabad Aviation SEZ Limited: The Company has been incorporated with the objective of setting up an aviation specific Special Economic Zone, including setting up of Maintenance Repair and Overhaul (MRO) facilities within the airport premises. The company has obtained the approval from the Board of Approval (BOA) for setting up of the aviation specific SEZ. The company is yet to commence business activity.

GMR Hyderabad Aviation SEZ Limited has an authorised and paid up share capital of Rs.5 lakhs comprising 50,000 equity shares or Rs.10/- each and are wholly held by your company.

GMR Hyderabad Multiproduct SEZ Limited: The Company has been incorporated with the objective of setting up a multiproduct Special Economic Zone within the airport premises. The company has obtained the approval from the Board of Approval (BOA) for setting up of the aviation specific SEZ. The company is yet to commence business activity.

GMR Hyderabad Multiproduct SEZ Limited has an authorised share capital of Rs.10 lakhs and a paid up share capital of Rs.5 lakhs comprising 50,000 equity shares or Rs.10/- each and are wholly held by your company.

Existing Subsidiary: Hyderabad Menzies Air Cargo Private Limited: During the year under review, Hyderabad Menzies Air Cargo Private Limited (HMACPL) has commenced commercial operations and completed 9 days of operations as on March 31, 2008. During this period, HMACPL has generated revenues to the tune of Rs.0.46 crores. After the writing off of the preliminary and preoperative project expenditure, the company registered a loss of Rs.1.79 crores.

During the year the company had enhanced its share capital in order to meet its operational requirements and procurement of fixed assets. The restated authorised share capital comprises of Rs.10 crore equity share capital. As on March 31, 2008 the company's paid up share capital is Rs.1.02 crores, of which your company has 51% contribution.

Statement under Section 212 of the Companies Act, 1956

A statement under Section 212 of the Companies Act, 1956 consolidating the financial statements of the following subsidiaries of your company is presented as an Annexure to this report:

1. Hyderabad Menzies Air Cargo Private Limited
2. Hyderabad Airport Security Services Limited
3. GMR Hyderabad Airport Resource Management Limited
4. GMR Hyderabad Aerotropolis Limited

Auditors

The Auditors, M/s. Price Waterhouse, Chartered Accountants, Hyderabad, retire at the ensuing Annual General meeting and have confirmed their eligibility and willingness to accept office, if re-appointed.

Conservation of Energy, Technology Absorption & Foreign Exchange Earnings & Outgo

The particulars as required under sub-section (1)(e) of Section 217 of the Companies Act, 1956, read with the Companies (Disclosure of particulars in the Report of the Board of Directors) Rules, 1988, are set out as an Annexure to this report.

Particulars of Employees

Particulars required under Section 217(2A) of the Companies Act, 1956 read with Companies (Particulars of Employees) Rules, 1975, as amended, are set out in the Annexure to this report.

Acknowledgement

Your Directors take this opportunity to express their sincere thanks and gratitude to the Government of India, Government of Andhra Pradesh, Airports Authority of India, Malaysia Airports Holdings Berhad, GMR Group and the Lending Banks and Financial Institutions, for their co-operation.

Your Directors place on record their sincere appreciation of the contributions made by the employees at all levels through their hard work, dedication, solidarity and support.

For and on behalf of the Board of Directors

Sd/-
Kiran Kumar Grandhi
Managing Director

Sd/-
R S S L N Bhaskarudu
Director

Place: Hyderabad
Date: May 14, 2008

Annexure to Directors' Report

Information pursuant to companies (Disclosure of particulars in the report of the board of Directors) Rules, 1988.

Conservation of Energy, Technology absorption.

Since the Company is in the project stage majority of the year and is not engaged in any manufacturing activity, the particulars are not applicable.

Foreign Exchange Earnings and outgo

There were no foreign exchange earnings during the period. information regarding foreign exchange outgo is given in item No. 20 of the notes to Accounts.

AUDITORS' REPORT TO THE MEMBERS OF GMR HYDERABAD INTERNATIONAL AIRPORT LIMITED

1. We have audited the attached Balance Sheet of GMR Hyderabad International Airport Limited ("the Company") as at March 31, 2008, and the related Profit and Loss Account and Cash Flow Statement for the year ended on that date annexed thereto, which we have signed under reference to this report. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.
2. We conducted our audit in accordance with the auditing standards generally accepted in India. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes, examining on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.
3. As required by the Companies (Auditor's Report) Order, 2003, as amended by the Companies (Auditor's Report) (Amendment) Order, 2004, issued by the Central Government of India in terms of sub-section (4A) of Section 227 of 'The Companies Act, 1956' of India (the 'Act') and on the basis of such checks of the books and records of the company as we considered appropriate and according to the information and explanations given to us, we give in the Annexure to this report, a statement on the matters specified in paragraphs 4 and 5 of the said Order.
4. Further to our comments in the Annexure referred to in paragraph 3 above, we report that:
 - (a) We have obtained all the information and explanations, which to the best of our knowledge and belief were necessary for the purposes of our audit;
 - (b) In our opinion, proper books of account as required by law have been kept by the company so far as appears from our examination of those books;
 - (c) The Balance Sheet, Profit and Loss Account and Cash Flow Statement dealt with by this report are in agreement with the books of account;
 - (d) In our opinion, the Balance Sheet, Profit and Loss Account and Cash Flow Statement dealt with by this report comply with the accounting standards referred to in sub-section (3C) of Section 211 of the Act;
 - (e) On the basis of written representations received from the directors, as on March 31, 2008 and taken on record by the Board of Directors, none of the directors is disqualified as on March 31, 2008 from being appointed as a director in terms of clause (g) of sub-section (1) of Section 274 of the Act;
 - (f) In our opinion and to the best of our information and according to the explanations given to us, the said financial statements together with the notes thereon and attached thereto give in the prescribed manner the information required by the Act and give a true and fair view in conformity with the accounting principles generally accepted in India:
 - (i) in the case of the Balance Sheet, of the state of affairs of the company as at March 31, 2008;
 - (ii) in the case of the Profit and Loss Account, of the loss for the period ended on that date; and
 - (iii) in the case of the Cash Flow Statement, of the cash flows for the year ended on that date.

Place: Hyderabad
Date: May 14, 2008

Sd/-
P. Rama Krishna, Partner
Membership No. 22795
For and on behalf of
Price Waterhouse,
Chartered Accountants

ANNEXURE TO AUDITORS' REPORT

[Referred to in paragraph 3 of the Auditors' Report of even date to the members of GMR Hyderabad International Airport Limited on the financial statements for the year ended March 31, 2008]

1. (a) The company is maintaining proper records showing full particulars including quantitative details and situation of fixed assets.
(b) The fixed assets are physically verified by the management according to a phased programme designed to cover all the items over a period of three years, which in our opinion, is reasonable having regard to the size of the company and the nature of its assets. Pursuant to the programme, a portion of the fixed assets has been physically verified by the management during the year and no material discrepancies between the book records and the physical inventory have been noticed.
(c) In our opinion and according to the information and explanations given to us, a substantial part of fixed assets has not been disposed of by the company during the year.
2. The company has neither granted nor taken any loans, secured or unsecured, to/from companies, firms or other parties covered in the register maintained under Section 301 of the Act.
3. In our opinion and according to the information and explanations given to us, having regard to the explanation that certain items purchased are of special nature for which suitable alternative sources do not exist for obtaining comparative quotations, there is an adequate internal control system commensurate with the size of the company and the nature of its business for the purchase of fixed assets and for the sale of services. The activities of the Company did not involve purchase of inventory and sale of goods during the financial year. Further, on the basis of our examination of the books and records of the company, and according to the information and explanations given to us, we have neither come across nor have been informed of any continuing failure to correct major weaknesses in the aforesaid internal control system.
4. According to the information and explanations given to us, there have been no contracts or arrangements referred to in Section 301 of the Act during the year to be entered in the register required to be maintained under that Section. Accordingly, commenting on transactions made in pursuance of such contracts or arrangements does not arise.
5. The company has not accepted any deposits from the public within the meaning of Sections 58A and 58AA of the Act and the rules framed there under.
6. In our opinion, the company has an internal audit system commensurate with its size and nature of its business.
7. (a) According to the information and explanations given to us and the records of the company examined by us, in our opinion, the company is generally regular in depositing the undisputed statutory dues including provident fund, employees' state insurance, income-tax, sales-tax, wealth tax, Customs duty and service tax and other material statutory dues as applicable with the appropriate authorities. According to the information and explanation given to us and the records of the company examined by us, investor education and protection fund, excise duty and cess are not applicable to the Company for the current year.
(b) According to the information and explanations given to us and the records of the company examined by us, there are no dues of income-tax, sales tax, wealth tax, customs duty and service tax which have not been deposited on account of any dispute. According to the information and explanations given to us and the records of the company examined by us, excise duty and cess are not applicable to the Company for the current year.

8. The Company has accumulated losses as at March 31, 2008 and it has incurred cash loss in the financial year ended on that date and it has not incurred any cash loss in the immediately preceding financial year as it was in Project development stage.
9. According to the records of the company examined by us and the information and explanation given to us, the company has not defaulted in repayment of dues to any financial institution or bank as at the balance sheet date. The Company has neither issued any debentures during the year nor are any debentures outstanding as at the balance sheet date.
10. The company has not granted any loans and advances on the basis of security by way of pledge of shares, debentures and other securities.
11. The provisions of any special statute applicable to chit fund / nidhi / mutual benefit fund/societies are not applicable to the company.
12. In our opinion, the company is not a dealer or trader in shares, securities, debentures and other investments.
13. In our opinion and according to the information and explanations given to us, the company has not given any guarantee for loans taken by others from banks or financial institutions during the year.
14. In our opinion, and according to the information and explanations given to us, on an overall basis, pending utilisation for the stated purpose, certain loan funds were temporarily invested in short term investments, till the stated end use.
15. On the basis of an overall examination of the balance sheet of the company, in our opinion and according to the information and explanations given to us, there are no funds raised on a short-term basis which have been used for long-term investment.
16. The company has not made any preferential allotment of shares to parties and companies covered in the register maintained under Section 301 of the Act during the year.
17. The company has not raised any money by public issue during the year.
18. During the course of our examination of the books and records of the company, carried out in accordance with the generally accepted auditing practices in India, and according to the information and explanations given to us, we have neither come across any instance of fraud on or by the company, noticed or reported during the year, nor have we been informed of such case by the management.
19. The other clauses (ii), (iii)(b), (iii)(c), (iii)(d), (iii)(f), (iii)(g), (v)(b), (viii) and (xix) of paragraph 4 of the Companies (Auditor's Report) Order 2003, as amended by the Companies (Auditor's Report) (Amendment) Order, 2004, are not applicable in the case of the company for the current year, since in our opinion there is no matter which arises to be reported in the aforesaid order.

Place: Hyderabad
Date: May 14, 2008

Sd/-
P. Rama Krishna, Partner
Membership No. 22795
For and on behalf of
Price Waterhouse,
Chartered Accountants

Balance Sheet as at March 31, 2008

(Amount in Rupees)

	Schedule Ref	As at March 31, 2008	As at March 31, 2007
I. Source of Funds			
1. Shareholder's Funds			
a) Capital	1	5,87,300	5,87,300
b) Reserves and Surplus	2	107,00,00,000	107,00,00,000
2. Share application money, pending allotment		348,36,77,000	205,59,09,000
3. Loan Funds			
a) Secured Loans	3	1541,53,49,989	536,68,16,666
b) Unsecured Loans	4	339,48,24,066	333,47,01,057
		2336,44,38,355	1182,80,14,023
II. Application of Funds			
1. Fixed Assets			
a) Gross Block	5	2279,35,14,635	13,17,65,577
b) Less: Depreciation		7,48,75,833	2,63,20,947
c) Net Block		2271,86,38,802	10,54,44,630
d) Capital Work-in-Progress (Including Capital advances)		172,21,31,777	953,00,18,074
e) Expenditure during construction pending allocation	6	30,42,54,987	180,68,74,444
		2474,50,25,566	1144,23,37,148
2. Investments	7	89,86,35,979	43,14,26,703
3. Current Assets, Loans Advances			
a) Sundry Debtors	8	8,95,12,137	-
b) Cash and Bank Balances	9	55,240,01,042	50,52,65,061
c) Other Current Assets	10	28,92,130	8,78,551
d) Loans and Advances	11	142,00,72,499	21,07,30,304
		206,48,77,808	71,68,73,916
Less: Current Liabilities and Provisions			
a) Liabilities	12	490,41,12,989	74,13,97,101
b) Provisions	13	1,80,66,196	2,12,26,643
		492,21,79,185	76,26,23,744
Net Current Assets		(285,73,01,377)	(4,57,49,828)
4. Profit & Loss Account		57,80,78,187	-
Statement on Significant Policies and notes To the accounts	20	2336,44,38,355	1182,80,14,023

The Schedules referred to above form an integral part of the Balance Sheet

This is the Balance Sheet referred to in our report of even date

For and on behalf of the Board of Directors

Sd/-
P. Ramakrishna
Partner
Membership No. 22795
For and on behalf of
Price Waterhouse
Chartered Accountants

Sd/-
Kiran Kumar Grandhi
Managing Director

Sd/-
R S S L N Bhaskarudu
Director

Sd/-
Rajgopal Swami
Chief Financial Officer &
Company Secretary

Place: Hyderabad
Date: May 14, 2008

Profit and Loss Account for the period ended March 31, 2008

(Amount in Rupees)

	Schedule Ref	For the period from March 23, 2008 to March 31, 2008
I. Income		
Income from Services	14	5,95,65,195
Other Income	15	4,53,87,972
		10,49,53,167
Less: Concession Fee		41,98,127
Net Income		10,07,55,040
II. Expenditure		
Personnel Cost	16	2,70,28,866
Operating Cost	17	1,10,07,651
Administration Cost	18	32,55,91,385
Expenditure during construction period not in Capital Nature		26,61,74,683
Preliminary Expenses written off		1,60,500
		(52,92,08,045)
III. Profit Before Interest & Depreciation		
Finance Charges	19	2,21,68,573
Depreciation & Amortisation		2,56,08,432
IV. Profit Before Taxation		
		(57,69,85,050)
Provision for Taxation - Current		-
- Deferred		-
- Fringe Benefit Tax		9,28,874
- Wealth Tax		1,64,263
V. Profit After Taxation		
		(57,80,78,187)
VI. Available Surplus Carried to Balance Sheet		
		(57,80,78,187)
Earnings per Share(Rs.) - Basic & Diluted		(9,843)
Statement on Significant Accounting Policies and notes to the accounts	20	

The Schedules referred to above form an integral part of the Profit & Loss Account

This is the Profit & Loss Account referred to in our report of even date

For and on behalf of the Board of Directors

Sd/-
P. Ramakrishna
Partner
Membership No. 22795
For and on behalf of
Price Waterhouse
Chartered Accountants

Sd/-
Kiran Kumar Grandhi
Managing Director

Sd/-
R S S L N Bhaskarudu
Director

Sd/-
Rajgopal Swami
Chief Financial Officer &
Company Secretary

Place: Hyderabad
Date: May 14, 2008

Schedules forming part of Balance sheet as at March 31, 2008

(Amount in Rupees)

Schedule 1 - Capital	As at March 31, 2008	As at March 31, 2007
Authorised		
40,00,00,000 Equity Shares of Rs.10 each (2007-40,00,00,000 Equity share of 10 each)	400,00,00,000	400,00,00,000
Issued, Subscribed and Paid-up (58,730 (2007 - 58,730) Equity Shares of Rs. 10 each fully paid up	5,87,300	5,87,300
{Out of the above, 36,995 (2007 - 36,995) Equity shares fully paid up are held by the holding company, GMR Infrastructure Limited}	5,87,300	5,87,300
Schedule 2 - Reserves and Surplus	As at March 31, 2008	As at March 31, 2007
Capital Reserve	107,00,00,000	107,00,00,000
	107,00,00,000	107,00,00,000
Schedule 3 - Secured Loans	As at March 31, 2008	As at March 31, 2007
Term Loans - Banks		
In Indian Rupees	847,32,66,667	427,30,66,667
In Foreign Currency	501,50,00,000	-
Term Loans - Financial Institution	192,70,83,322	109,37,49,999
(Term loans are Secured by mortgage of Leasehold right, title, interest and benefit in respect of Leasehold Land and first charge on all movable and immovable assets, operating cash flows, book debts, receivables, intangibles and revenues, both present and future, as well as assignment of all right, title, interest, benefits, claims and demands available under the concession agreement and other project documents, security interest in the Trust and Retention Account, Debt Service Reserve Account and further secured by pledge of certain equity shares, both present and future, held or to be held, as the case may be, by both, the		
	1541,53,49,989	536,68,16,666
Schedule 4 - Unsecured Loans	As at March 31, 2008	As at March 31, 2007
Other than Short Term		
Interest Free Loan from Government of Andhra Pradesh	315,05,00,000	315,00,00,000
Security deposits from Concessionaires	24,43,24,066	7,50,00,000
Short Term		
Bank Overdraft	-	10,97,01,057
	339,48,24,066	333,47,01,057

Schedules forming part of Balance sheet as at March 31, 2008

Schedules 5 - Fixed Assets

Description	Gross Block			Depreciation/Amortisation			Net Block		
	As at April 1, 2007	Additions	Withdrawals	As at March 31, 2008	As at April 1, 2007	For the Period*	On Withdrawals	As at March 31, 2008	As at March 31, 2007
Improvements to Leasehold Land	-	98,95,99,555	-	98,95,99,555	-	4,06,685	-	98,91,92,870	-
Runways	-	438,78,55,423	-	438,78,55,423	-	36,13,669	-	438,42,41,754	-
Other Roads	-	96,09,99,176	-	96,09,99,176	-	3,86,243	-	96,06,12,933	-
Buildings	-	848,04,63,082	-	848,04,63,082	-	69,84,184	-	847,34,78,898	-
Electrical Installations	-	186,61,59,611	-	186,61,59,611	-	21,87,851	-	186,39,71,760	-
Plant & Machinery	-	428,38,21,237	-	428,38,21,237	-	55,75,801	-	427,82,45,436	-
Office Equipment	8,05,94,621	131,03,36,062	19,54,967	138,89,75,716	1,42,76,442	1,80,69,983	5,25,130	135,71,54,421	6,63,18,179
Furniture and Fixtures	4,25,52,326	36,42,54,772	9,15,728	40,58,91,370	1,02,18,747	1,05,38,184	1,68,237	38,53,02,676	3,23,33,579
Vehicles	86,18,630	2,23,60,107	12,29,272	2,97,49,465	18,25,756	15,75,356	89,703	2,64,38,054	67,92,872
Total	13,17,65,577	2266,58,49,025	40,99,967	2279,35,14,635	2,63,20,947	4,93,37,956	7,83,070	2271,86,38,802	10,54,44,630
Capital work in progress (Including capital advances)								172,21,31,777	953,00,18,074
Grand Total	13,17,65,577	2266,58,49,025	40,99,967	2279,35,14,635	2,63,20,947	4,93,37,956	7,83,070	2444,07,70,579	963,54,62,704
Previous Period	9,08,80,710	4,65,94,671	57,09,804	13,17,65,577	80,54,154	1,85,23,446	2,56,653	10,54,44,630	

*Depreciation for the period includes Rs. 2,37,29,524, capitalised as part of "Expenditure during construction period, pending allocation (Net)"

Schedules forming part of Balance Sheet as at March 31, 2008

(Amount in Rupees)

Schedule 6 - Expenditure during construction period, pending allocation (Net)	Up to and as at March 31, 2008	Up to and as at March 31, 2007
Salaries, allowances and benefits to employees	103,81,25,244	43,04,06,413
Contribution to Provident and other Funds	3,41,31,442	1,78,00,784
Staff welfare expenses	8,57,31,724	5,84,29,354
Advertisement	5,53,43,620	4,03,84,535
Rent	9,45,02,842	7,10,65,158
Rates and taxes	3,05,58,222	2,26,44,934
Insurance	3,74,67,246	2,30,32,384
Repairs and Maintenance - Others	38,09,12,172	3,12,67,228
Consultancy and other professional charges	108,90,97,171	39,59,56,967
Director's sitting fee	11,44,000	6,55,000
Electricity charges	4,76,74,322	1,56,51,499
Remuneration to auditors		
Audit Fees	12,58,000	12,18,200
Certification	6,84,660	7,19,660
Others	11,25,000	3,21,035
Reimbursement exps - Statutory Auditor	6,235	
Travelling and conveyance	46,58,71,986	21,12,24,102
Communication expenses	4,32,69,140	3,04,54,173
Interest on fixed loans	99,73,17,365	29,16,20,862
Bank / other finance charges	6,65,16,816	4,67,40,510
Depreciation	5,03,07,125	2,65,77,600
Income Tax	91,28,731	92,28,309
Wealth Tax	80,081	80,437
Fringe Benefit Tax	4,14,63,421	1,64,90,344
Miscellaneous expenses	47,87,89,644	17,82,66,904
Donations	12,44,18,185	1,01,76,137
Preliminary Expenses	1,60,500	1,60,500
	517,50,84,894	193,05,73,029
Less : Interest on Deposits	2,53,83,247	2,06,96,556
Income from Investments	14,15,92,437	8,67,73,249
Profit on Sale of Investments	17,42,765	16,70,968
Profit on Sale of Assets	77,381	77,200
Gain / (Loss) on Exchange Fluctuations (Net)	1,66,31,873	(5,80,671)
Miscellaneous Income	5,52,48,558	1,12,81,283
Rent received-Land sub lease	1,51,35,906	37,80,000
	491,92,72,727	180,68,74,444
Less : Project expenses charged to Profit and Loss Account	26,61,74,683	-
	465,30,98,044	180,68,74,444
Less : Preliminary expenses charged to Profit and Loss Account	1,60,500	-
	465,29,37,544,	180,68,74,444
Less : Allocated to Capital Assets	434,86,82,557	-
	30,42,54,987	180,68,74,444

Schedules forming part of Balance Sheet as at March 31, 2008

(Amount in Rupees)

Schedule 7 - Investments	As at March 31, 2008	As at March 31, 2007
Long Term Other than Trade - Unquoted		
In shares of Subsidiary Companies		
Hyderabad Menzies Air Cargo Pvt. Ltd. (5,20,200 Equity Shares of Rs. 10 each fully paid)	52,02,000	5,10,000
GMR Hyderabad Aerotropolis Limited (50,000 Equity Shares of Rs. 10 each fully paid)	5,00,000	-
GMR Hyderabad Airport Resource Management Limited (50,000 Equity Shares of Rs. 10 each fully paid)	5,00,000	-
Hyderabad Airport Security Services Limited (50,000 Equity Shares of Rs. 10 each fully paid)	5,00,000	-
GMR Hyderabad Aviation SEZ Limited (50,000 Equity Shares of Rs. 10 each fully paid)	5,00,000	-
GMR Hyderabad Multiproduct SEZ Limited (50,000 Equity Shares of Rs. 10 each fully paid)	5,00,000	-
	77,02,000	5,10,000
Current Other than Trade - Unquoted		
DBS Chola Short term Floating Rate Fund - Daily Dividend Reinvestment Plan Nil (2007-16,09,316.88) units of face value Rs. 10 per unit	-	1,61,19,561
Principal Cash Management Fund Liquid Option Instl. Plan -Dividend Reinvestment Daily Nil (2007-35,11,453.87) units of face value Rs. 10 per unit	-	3,51,16,997
Principal Floating Rate FMP Fund Institutional Option -Dividend Reinvestment Daily 1,39,97,187.67 (2007-Nil) units of face value Rs. 10 per unit	14,01,44,042	-
Reliance liquidity Fund Daily Dividend Option Nil (2007-3,17,53,571.61) units of face value Rs. 10 per unit	-	31,76,34,152
UTI Liquid Cash Plan Institutional-Daily Income Option-Reinvestment 342746.796 (2007-50,565.38) units of face value Rs.1,000 per unit	40,03,84,032	5,15,48,661
ING Vysya Liquid Fund Super Institutional Daily Dividend Option 2,50,12,927.45 (2007-10,49,314.36) units of face value Rs.10 per unit	25,02,49,337	1,04,97,332
Reliance Liquid Plus Fund-Institutional Option-Daily Dividend Plan 1,00,042.879 (2007-Nil) units of face value Rs.10 per unit	10,01,56,568	-
[Aggregate Net Asset value as at March 31, 2008 -Rs.89,09,33,979 (2007-Rs. 43,09,17,552)]	89,09,33,979	43,09,16,703
Total Investments	89,86,35,979	43,14,26,703

Schedules forming part of Balance Sheet as at March 31, 2008

(Amount in Rupees)

Schedule 8 - Sundry Debtors	As at March 31, 2008	As at March 31, 2007
(Unsecured, Considered good)		
Debtors outstanding for more than six months	-	-
Other Debts	8,95,12,137	-
	8,95,12,137	-
Schedule 9 - Cash and Bank Balances	As at March 31, 2008	As at March 31, 2007
Cash on Hand	5,24,141	1,85,850
Balances with Scheduled Banks		
- on Current Accounts	36,06,81,069	50,79,211
- on Deposit Accounts	10,00,00,000	50,00,00,000
- on Margin Money*	9,11,95,832	-
*The margin money deposits are towards letters of credit and Bank Guarantees issued by the bankers on behalf of the company.	55,24,01,042	50,52,65,061
Schedule 10 - Other Current Assets	As at March 31, 2008	As at March 31, 2007
(Unsecured, Considered good)		
Interest accrued on deposits	24,92,130	4,78,551
Grant accrued	4,00,000	4,00,000
	28,92,130	8,78,551
Schedule 11 - Loans and Advances	As at March 31, 2008	As at March 31, 2007
(Unsecured, Considered good)		
Loans to Employees	55,72,388	53,13,480
Advances to Subsidiaries	6,23,40,000	-
Advances recoverable in cash or in kind or for value to be received*	51,32,78,857	5,45,81,696
Deposits with Government Authorities	1,95,77,630	79,32,522
Balance with Customs, Excise, etc	75,08,13,624	14,29,02,606
Advance to towards Share Application Money	6,84,90,000	-
*Includes amount due from Managing Director as at March 31, 2008 - Rs.9,99,061 (2007 - Rs.8,54,995) Maximum amount due at any time During the period was Rs.96,21,720 (2007 - Rs. 51,32,956)	142,00,72,499	21,07,30,304
Schedule 12 - Liabilities	As at March 31, 2008	As at March 31, 2007
Sundry Creditors		
- Due to Micro, Small and Medium Enterprises*	10,378,343	-
- Due to other than Micro, Small and Medium Enterprises	348,99,92,630	10,00,14,953
	350,03,70,973	10,00,14,953
Advances from Concessionaires	2,58,13,334	-
Retention Money	110,23,29,038	59,06,08,790
Other liabilities	25,69,89,176	5,07,73,358
Interest accrued but not due	1,44,12,341	-
Concession Fee Payable	41,98,127	-
*Note: Classification is on the basis of information available with the company	490,41,12,989	74,13,97,101

Schedules forming part of Balance Sheet as at March 31, 2008

(Amount in Rupees)

Schedule 13 - Provisions	As at March 31, 2008	As at March 31, 2007
Provision for Income Tax (net of advance taxes)	-	6,47,298
Provision for Wealth Tax (net of advance taxes)	1,64,263	32,185
Provision for Fringe Benefit Tax (net of advance taxes)	13,91,891	10,27,013
Provision for Gratuity	32,75,507	29,46,710
Provision for Superannuation	-	45,03,879
Provision for Leave Encashment	1,32,34,535	1,20,69,558
	1,80,66,196	2,12,26,643

Schedules forming part of Profit and Loss Account for the period ended March 31, 2008

(Amount in Rupees)

Schedule 14 - Income from Services	For the period from March 23, 2008 to March 31, 2008
Aeronautical	1,94,41,312
Non Aeronautical	4,01,23,883
	5,95,65,195

Schedule 15 - Other Income	For the period from March 23, 2008 to March 31, 2008
Interest received, (Gross)	29,55,921
[Tax Deducted at Source Rs. 13,41,526/- (2007-13,60,497)]	
Income from Investments(gross)	16,94,978
Miscellaneous Income	2,54,989
Gain on Exchange Fluctuation	4,04,82,084
	4,53,87,972

Schedule 16 - Personnel Cost	For the period from March 23, 2008 to March 31, 2008
Salaries and Wages	1,66,52,309
Contribution to Provident fund and other funds	39,54,415
Staff welfare expenses	64,22,142
	2,70,28,866

Schedule 17 - Operating Cost	For the period from March 23, 2008 to March 31, 2008
Operators Fee	39,73,641
Insurance	58,059
Repairs and Maintenance	
Buildings	35,250
Plant and Machinery	6,08,448
Others	28,85,679
Electricity Charges	34,46,574
	1,10,07,651

Schedules forming part of Profit and Loss Account for the period ended March 31, 2008

(Amount in Rupees)

Schedule 18 - Administration Cost	For the period from March 23, 2008 to March 31, 2008
Rent	6,55,604
Rates and Taxes	2,95,491
Advertisement	7,38,42,482
Consultancy and Other Professional Charges	2,41,41,167
Traveling and Conveyance	2,59,84,367
Remuneration to Auditors	
Audit fees	15,00,000
Communication Expenses	26,73,409
Donations	1,70,12,653
Office Maintenance	66,09,416
Security Charges	28,62,840
Printing and Stationery	1,04,92,851
Loss on Sale of Fixed Assets	20,14,261
Recruitment and Training Charges	36,53,168
Inauguration Expenses	14,65,37,045
Miscellaneous Expenses	73,16,631
	32,55,91,385
Schedule 19 - Finance Charges	For the period from March 23, 2008 to March 31, 2008
Interest on Fixed Loans	2,03,64,898
Other Finance Charges	18,03,675
	2,21,68,573

SCHEDULE - 20

I. SIGNIFICANT ACCOUNTING POLICIES

1. Accounting Assumptions:

These accounts have been prepared under the historical cost convention on the basis of a going concern, with revenues recognised and expenses accounted on their accrual and amounts determined as payable or receivable during the year, except those with significant uncertainties, and in accordance with the applicable Accounting Standards as issued by the Institute of Chartered Accountants of India.

2. Revenue Recognition:

Revenue from Airport operations are recognised on accrual basis, net of Service tax, applicable discounts and collection charges, when services are rendered and it is probable that an economic benefit will be received which can be quantified reliably.

3. Concession Fee:

The concession fee computed as a percentage of revenue pursuant to the terms and conditions of the Concession agreement for the Development, Construction, Operation and maintenance of GMR Hyderabad International Airport, is recognised as charge in the Profit and Loss account.

4. Fixed Assets

Fixed Assets are stated at cost, net of cenvat credit less accumulated depreciation. Cost of acquisition is inclusive of freight, duties levies and all incidental expenditure attributable to bringing the assets to its working condition. Assets under installation or under construction as at the balance sheet date are shown as capital work in progress.

All fixed Assets are assessed for any indication of impairment at the end of each financial year. On any such indication, the impairment loss (being the excess of carrying value over the recoverable value of the asset) is immediately charged to the Profit and Loss Account. The impairment loss recognised in the prior years is reversed where the recoverable value exceeds the carrying value of the asset upon re-assessment in the subsequent years.

5. Depreciation

Depreciation is provided on straight line method at the rates based on the estimated useful lives of the assets or those prescribed under Schedule XIV of the Companies Act, 1956 whichever is higher. Individual assets costing less than Rs. 5,000 are fully depreciated in the year of purchase.

Lease hold improvement are amortised over shorter of estimated useful lives or lease period.

6. Foreign currency Transactions

All Foreign currency transaction are accounted at the exchange rates prevailing on the date of transactions. Current assets and current liabilities are translated at the exchange rate prevailing on the balance sheet date and the resultant gain / loss is recognised in the financial statements.

In case of Forward Exchange Contacts or any financial instruments i.e in substance a forward exchange contact to hedge the foreign currency risk which is on account of firm commitment and / or is a highly probable forecast transaction, the premium or discount arising at the inception of the contract is amortised as expense or income over the life of the contact.

7. Government Grant:

Government Grant in the nature of Capital Subsidy is treated as capital reserve.

8. Investments:

Long-term investment are valued at cost unless there is a permanent diminution in their values. Current investments are valued at cost or market value whichever is lower. Cost of acquisition is inclusive of expenditure incidental to acquisition. Income from Investments is recognised in the year in which it is accrued and stated at Gross.

9. Retirement Benefits:

Retirement Benefits are accounted for on accrual basis in respect of contribution schemes such as provident fund and superannuation fund with contributions charged against revenue each last year. Liability for gratuity is funded through a scheme administered by an insurer and a provision is made based on actuarial valuation carried out as at balance sheet date. Provision for leave encashment is made based on actuarial valuation carried as at the year end.

10. Borrowing Costs:

Borrowing costs that are attributable to acquisition, construction or production of a qualifying asset are capitalized as a part of cost of such asset. All other borrowing costs are recognized as an expense in the year in which they are incurred.

11. Earnings per Share:

The earnings considered in ascertaining the Company's earnings per share (EPS) comprised the net profit/(loss) after tax. The number of shares used in computing Basic EPS is the weighted average number of shares outstanding during the year. The number of shares used in computing Diluted EPS comprises of weighted average shares considered for deriving Basic EPS, and also the weighted average number of equity shares which could have been issued to the conversion of all dilutive potential equity shares where applicable. Dilutive potential shares are deemed to have been converted as of the beginning of the year, unless they have been issued at the later date.

12. Taxes on Income:

Current tax is determined based on the amount of tax payable in respect of taxable income for the year. Deferred tax is recognized on timing differences being the difference between the taxable incomes and accounting income that originate in one year and are capable of reversal in one or more subsequent years. Deferred tax assets and liabilities are computed on the timing differences applying the enacted tax rates and tax laws that have been enacted or substantively enacted by the balance sheet date. Deferred tax assets arising on account of unabsorbed depreciation or carry forward of tax losses are recognized only to the extent that there is virtual certainty evidence that sufficient future tax income will be available against which such deferred tax assets can be realized.

II. Notes on Accounts**1. (a) Contingent liabilities:**

Bank Guarantee outstanding in respect of customs and others Rs. 19,01,95,826 (2007 – Rs Nil)

(b) Capital Commitments:

Estimated Value of contracts remaining to be executed on capital account, not provided for (Net of Advances): Rs. 162,31,95,688 (2007-Rs. 647,34,57,941)

(c) The Company has entered in to SWAP agreement from floating rate of interest to fixed rate of interest against its foreign currency loan of USD 125 million, covering a period of September 10, 2007 to April 1, 2024. Impact on Marking-to-Market as on the Balance Sheet date is Rs. Nil

2. The company commenced its Commercial operations from March 23, 2008. Accordingly Profit and Loss Account has been drawn up for a period from March 23, 2008 to March 31, 2008. This being the first year of operations, previous year figures has not been furnished for the profit and loss account.
3. In respect of security component of passenger service fees being in the nature of "pass through", the same has not been considered as part of the company revenues. The balances at the period end have been disclosed under the respective heads in the Balance Sheet.
4. Company has capitalized Rs. 434,86,82,557 towards cost of various assets in building the Airport, as expenditure incurred during construction period as stated in schedule 6 including borrowing cost and trial run cost. Preoperative expenditure of Rs. 26,61,74,683 other than those which have been capitalized, were charged to the profit and loss account during the year. Borrowing cost amounting to Rs. 99,72,45,171 has been included in the above expenditure incurred during construction period and capitalized as part of project cost.

5. Details of Investments purchased and sold during the period :

Description	Cost of Acquisition		Sales	
	Units	(Amount in Rupees)	Units	(Amount in Rupees)
DBS Chola Short term Floating Rate Fund-Daily Div Reinv Plan	9,24,17,774 (27,96,41,066)	92,57,01,399 (280,46,82,671)	9,40,27,091 (33,25,85,675)	94,18,20,960 333,57,80,782
NFSTD Canara Robeco Floating Rate ST Daily Dividend Fund	15,65,25,210 (4,54,01,212)	160,59,48,650 (45,58,73,571)	15,65,25,210 (4,68,95,195)	160,59,48,650 (47,08,74,656)
Principal Cash Management Fund Liquid Option Inst. Plan-Dividend Reinvestment Daily	14,22,53,664 (5,86,80,904)	144,13,05,911 (58,68,50,115)	14,57,65,118 (5,51,69,450)	147,64,22,908 (55,17,33,119)
Kotak Liquid (Institutional Premium) -Daily Dividend	3,68,37,784 (73,246)	45,04,56,108 (8,95,662)	3,68,37,784 (57,98,658)	45,04,56,108 (7,09,06,567)
ING Vysya Liquid Fund Super Institutional Daily Dividend Option	6,72,37,254 (7,95,23,404)	67,26,95,274 (79,54,73,446)	4,32,73,641 (7,84,74,090)	43,29,43,270 (78,50,00,000)
LIC Liquid Fund-Dividend Plan	- (18,69,94,674)	- (205,17,61,221)	- (18,88,70,452)	- (207,27,98,469)
Reliance liquidity Fund Daily Dividend Option	21,14,34,406 (12,30,04,905)	211,49,99,510 (123,04,30,362)	24,31,87,978 (9,12,51,333)	243,26,33,662 (91,27,96,210)
Reliance Call Market Linked Plan	- (5,54,11,863)	- (61,73,49,104)	- (5,54,11,863)	- (61,73,49,104)
UTI Liquid Cash Plan Institutional -Daily Income	9,37,699 (5,42,082)	95,59,33,049 (55,26,23,639)	5,95,517 (4,91,517)	60,70,97,678 (50,10,74,978)
ICICI Pru Institutional Liquid Plan-Super Institutional Daily Dividend-Reinvest Dividend	5,33,16,099 (16,53,26,782)	53,31,79,222 (165,32,69,824)	5,33,16,099 (16,53,26,782)	53,31,79,222 (165,32,67,824)
NLFID Can Robeco Liquid Fund -Institutional Dialy Dividend Reinvest	2,98,84,459 -	30,00,69,852 -	2,98,84,459 -	30,00,69,852 -
Principal Floating Rate FMP Fund Insti Option-Dividend Reinvestment Daily	13,48,45,026 -	135,01,08,854 -	12,08,47,838 -	120,99,64,811 -
HSBC Cash Fund-Institutional Flus -Daily Dividend	9,39,60,632 -	94,01,32,496 -	9,39,60,632 -	94,01,32,496 -
HSBC Liquid Plus-Inst Plus-Daily Dividend	9,50,67,626 -	95,18,74,116 -	9,50,67,626 -	95,18,74,116 -
ING Vysya Liquid Plus Fund-Institutional Daily Dividend	1,01,33,433 -	10,13,67,765 -	1,01,33,433 -	10,13,67,765 -
Kotak Flex Debt Scheme-Daily Dividend	2,00,29,964 -	20,09,22,574 -	2,00,29,964 -	20,09,22,574 -
Reliance Liquid Plus Fund-Institutional Option-Daily Dividend Plan	2,49,928 -	25,02,11,834 -	1,49,885 -	15,00,55,266 -
Total	114,51,30,957	1279,49,06,613	114,36,02,274	1233,48,89,339

Notes:

- (i) The sales realisation excludes dividend, if any, received from Mutual Funds.
- (ii) Cost of acquisition includes Dividend earned and Profit and Loss on sale of investments during the year.
- (iii) Previous year figures (2007) are mentioned in brackets.

5. The Company is engaged in operation of Airport, which in the context of Accounting Standard 17 "Segment Reporting", issued by the Institute of Chartered Accountants of India, is considered as the only segment. Hence, reporting under the requirements of the said standard does not arise.

6. Details of transactions with Related Parties:

A Name of related parties and description of relationship:

(i) Holding Company	GMR Infrastructure Limited (GIL)
(ii) Ultimate Holding Company	GMR Holding Private Limited (GHPL)
(iii) Subsidiary Companies	Hyderabad Menzies Air Cargo Private Limited GMR Hyderabad Aerotropolis Limited GMR Hyderabad Airport Resource Management Limited Hyderabad Airport Security Services Limited GMR Hyderabad Aviation SEZ Limited GMR Hyderabad Multiproduct SEZ Limited
(iv) Fellow Subsidiaries	G V L Investments Private Limited GMR Aviation Private Limited GMR Corporate Centre Limited GMR Krishnagiri SEZ Limited
(v) Fellow Subsidiaries of holding Company	GMR Industries Limited Raxa Security Services Limited
(vi) Shareholders' having significant influence	Government of Andhra Pradesh Airports Authority of India Malaysia Airports Holdings Herhad
(vii) Enterprise where significant influence exists	GMR Varalakshmi Foundation
(viii) Key Management Personnel	Mr. Kiran Kumar Grandhi - Managing Director

B. Summary of Transactions with the above related parties is as follows :

(Amount in Rupees)

Particulars		March 31, 2008	March 31, 2007
i)	Receipt of Share Application Money:		
	a) Holding Company-GMR Infrastructure Ltd.	102,62,88,000	-
	b)Shareholders' having significant influence		
	Airports Authority of India	141,060,000	15,30,36,000
	Government of Andhra Pradesh	141,000,000	-
	Malaysia Airports Holding Berhad	11,94,20,000	-
ii)	Remuneration:		
	a) Key Management Personnel		
	Mr. Kiran Kumar Grandhi - Managing Director	1,83,38,666	1,60,09,321
iii)	Services Received:		
	Fellow Subsidiaries		
	a) GMR Industries Ltd.	3,50,83,536	3,71,35,333
	b) Raxa Security Services Ltd.	2,49,06,072	1,35,39,990
	c) Airport Authority of India	24,48,353	-
	d) GMR Aviation Pvt. Ltd.	1,95,08,252	-
iv)	Charities and Donations:		
	Enterprise where significant influence exists		
	GMR Varalakshmi Foundaion	6,99,35,400	1,01,23,207
v)	Investment in Subsidiary Companies:		
	a) Hyderabad Menzies Air Cargo Private Limited	46,92,000	5,10,000
	b) GMR Hyderabad Aerotropolis Limited	5,00,000	-
	c) GMR Hyderabad Airport Resource		
	Management Limited	5,00,000	-
	d) Hyderabad Airport Security Services Limited	5,00,000	-
	e) GMR Hyderabad Aviation SEZ Limited	5,00,000	-
	f) GMR Hyderabad Multiproduct SEZ Limited	5,00,000	-
vi)	Advance towards Share Application Money:		
	a) Hyderabad Menzies Air Cargo Private Limited	59,90,000	-
	b) Hyderabad Airport Security services Limited	6,25,00,000	-
vii)	Advances to Subsidiaries:		
	a) GMR Hyderabad Airport Resource		
	Management Limited	2,33,00,000	-
	b) Hyderabad Airport Security Services Limited	3,90,40,000	-
viii)	Income from Concessional Fee:		
	a) Hyderabad Menzies Air Cargo Private Limited		
	- Revenue share	8,01,024	-
ix)	Income from Concessionaires Rent :		
	a) Hyderabad Menzies Air Cargo Private Limited		
	- Licence Fee	13,97,516	-

C. Out standing balances as at the year end :

(Amount in Rupees)

Particulars		March 31, 2008	March 31, 2007
i)	Balance Recoverable:		
	a) Hyderabad Menzies Air Cargo Private Limited, Hyderabad	24,70,280	
	b) GMR Hyderabad Airport Resource Management Limited	2,33,00,000	
	c) Hyderabad Airport Security Services Limited	3,90,40,000	
ii)	Advances towards Share Application money:		
	Subsidiary companies:		
	a) Hyderabad Menzies Air Cargo Private Limited	59,90,000	
	b) Hyderabad Airport Security Services Limited	6,25,00,000	
iii)	Investment in Subsidiaries:		
	a) Hyderabad Menzies Air Cargo Private Limited	52,02,000	5,10,000
	b) GMR Hyderabad Aerotropolis Limited	5,00,000	
	c) GMR Hyderabad Airport Resource Management Limited	5,00,000	
	d) Hyderabad Airport Security Services Limited	5,00,000	
	e) GMR Hyderabad Aviation SEZ Limited	5,00,000	
	f) GMR Hyderabad Multi-Product SEZ Limited	5,00,000	
iv)	Share application money pending allotment:		
	a) Holding Company: GMR Infrastructure Limited	238,25,61,000	
	b) Shareholders' having significant influence:		
	Airport Authority of India	38,68,78,000	
	Government of Andhra Pradesh	38,68,18,000	
	Malaysia Airport Holdings Berhad	32,74,20,000	

Notes: Transactions and outstanding balances in the nature of reimbursement of expenses incurred by one company On behalf of the other have not been considered above.

7. The Company has entered into certain operating lease agreements and an amount of Rs.2,40,93,288, (2007 - Rs.2,28,10,745) has been paid during the year, out of which Rs.2,34,37,685 (2007-Rs. Nil), has been capitalised and the balance amount of Rs. 6,55,603 has been considered under Rent in Profit and Loss Account.

8. Lease Rentals Payable towards Land lease:

In pursuance of the State Support Agreement, the Company has entered into a Land Lease Agreement with Government of Andhra Pradesh, for obtaining the possession of land on lease for the development of Airport Project. As per the agreement, the lease term is in line with the term of the Concession Agreement entered into with the Ministry of Civil Aviation, Government of India. The company is allotted land on lease by Govt of Andhra Pradesh, for a period of 30 years, with an option for extension for another 30 years. The lease rentals are payable from 8th anniversary from the commencement of operations. The future lease rentals, payable in this regard upto next 30 years are as given below:

Particulars	Minimum Lease Payable	
	March 31, 2008	March 31, 2007
Not later than one year	-	-
Later than one year and not later than five Years	-	-
Above five years	128,43,44,728	-

9. Lease Rent Receivable :

The Company has entered into non-cancellable operating sub-lease agreements for letting out land and premises and the future minimum lease receivable values are as under :

Particulars	Minimum Lease Payable	
	March 31, 2008	March 31, 2007
Not later than one year	60,81,50,820	-
Later than one year and not later than five years	212,81,16,825	-
Above five years	121,66,97,811	-

10. Employee Benefits :
a) Transitional obligation on account of adoption of Accounting Standard 15:

Effective April 1, 2007, the Company has adopted the Accounting Standard 15 (Revised 2005) on "Employee Benefits" issued by the Institute of Chartered Accountants of India. Pursuant to the adoption, the transitional obligation of the Company on account of the defined benefit plans amounted to Rs. 9,412/-. The said cost is accumulated in the Expenditure during construction period, pending allocation (net) and capitalised as part of Project cost.

b) Defined Benefit Plans :

The following table sets forth the status of the Gratuity plan of the company and the amount recognised in the Balance Sheet.

(Amount in Rupees)

Particulars	Gratuity
Projected benefit Obligation at the beginning of the period (01-04-2007)	56,12,687
Current Service cost	11,42,356
Interest Cost	4,49,015
Actuarial (Gain) Loss	(1,08,885)
Benefits Paid	(1,29,032)
Projected benefit Obligation at the end of the period (31-03-2008)	69,66,141
Amount recognised in the balance sheet	
Projected benefit obligation at the end of the period (31-03-2008)	69,66,141
Fair value of plan assets at the end of the period (31-03-2008)	36,90,634
Funded status of the plans-asset/(liability) recognised in the balance sheet	(32,75,507)
Cost for the period	
Current service cost	11,42,356
Interest cost	4,49,015
Expected return on plan asset	(1,88,026)
Net actuarial (gain)/loss recognised in the period	(1,64,677)
Net cost	12,38,668
Investment details of the plan assets	
State and central Securities	-
Bonds	-
Special deposits	-
Actual return on plan assets	
Assumptions:-	
Discount rate	8.00%
Estimated rate of return on plan assets	8.00%
Expected rate of salary increase	6.00%

C) Defined contribution plans :

In respect of defined contribution plans (Provident Fund and Superannuation), an amount of Rs. 1,74,58,272 has been recognised in expenditure during construction period pending allocation (net) and charged to in the Profit and Loss account proportionate to the period of commercial operation.

11. Earnings Per Share (EPS)*:

Particulars	March 31, 2008
a. Profit/(loss) after tax (Rs.)	57,80,78,187
b. Weighted average number of Equity Shares of Rs. 10 each outstanding during the period. (Used for calculation of Basic earnings per Share)	58,730
c. Earning per share Basic and diluted (Rs.)	(9,843)

*Share application money pending allotment is not considered for calculation of diluted earnings per share as the company has incurred loss during the period

12. Deferred Tax:

Deferred Tax liability as per the requirement of Accounting Standard-22, Accounting for taxes on income, issued by the Institute of Chartered Accountants of India has not been provided during the year as the timing differences that originate as at the Balance Sheet date will be reversing during the tax holiday period of the company under the provisions of Section 80-IA of the Income tax act, 1961.

13. Company has not paid any interest or any interest payable is outstanding to Micro, Small or Medium Enterprises (Under the provisions of Section 16 of the Micro, Small and Medium Enterprises Development Act, 2006) during the period ending March 31, 2008.

14. Auditors Remuneration:

(Amount in Rupees)

Particulars	March 31, 2008	March 31, 2007
Auditors Fee(Excluding Service Tax)	15,00,000	5,00,000
Total	15,00,000	5,00,000

15. Managerial Remuneration:

(Amount in Rupees)

Particulars	March 31, 2008	March 31, 2007
Salary	1,47,53,083	1,24,25,500
Contribution to Provident & Super Annuation Fund	35,10,000	34,75,250
Other Perquisites	75,583	1,08,571
Total	1,83,38,666	1,60,09,321

21. Expenditure in Foreign Currency:

(Amount in Rupees)

Particulars	March 31, 2008	March 31, 2007
Foreign Travel Expenses	5,84,28,596	47,41,612
Professional Charges	18,70,60,238	5,50,52,072
Interest	8,88,43,427	-
Others	10,99,41,122	2,13,16,228
Total	44,42,73,383	8,11,09,912

22. C.I.F Value of Imports

(Amount in Rupees)

Particulars	March 31, 2008	March 31, 2007
Capital Goods	5291,41,583	-
Total	5291,41,583	-

23. Additional Information pursuant to paragraphs 3, 4, 4-C and 4-D of part - II of Schedule VI to the Companies Act, 1956 to the extent either "Nil" or "Not Applicable" has not been furnished.

24. Previous year figures have been regrouped and reclassified, wherever necessary, to confirm to those of the current year.

For and on behalf of the Board

Sd/-
P. Ramakrishna
Partner
Membership No. 22795
For and on behalf of
Price Waterhouse
Chartered Accountants

Sd/-
Kiran Kumar Grandhi
Managing Director

Sd/-
R S S L N Bhaskarudu
Director

Sd/-
Rajgopal Swami
Chief Financial Officer &
Company Secretary

Place: Hyderabad
Date: May 14, 2008

Cash flow statement for the year ended March 31, 2008

(Amount in Rupees)

	March 31, 2008	March 31, 2007
A. CASH FLOW FROM OPERATING ACTIVITIES		
Net Profit Before Tax and Extra Ordinary items	(57,69,85,050)	-
Adjustment for :		
Depreciation	2,56,08,432	-
Foreign Exchange Fluctuation Gain	(4,04,82,084)	-
Loss on Sale of Fixed Asset	20,14,261	-
Interest income	(29,55,921)	-
Interest expense	2,03,64,898	-
Dividend received	(16,94,987)	-
Operating Profit Before Working Capital Changes	(574,130,442)	-
Adjustment for :		
(Increase) / Decrease in Sundry debtors	(8,95,12,137)	-
(Increase) / Decrease in Loans and Advances	(120,93,42,195)	(4,57,54,661)
Increase / (Decrease) in Current Liabilities and Provisions	417,01,66,585	31,39,68,645
Cash Generated from Operations	229,71,81,811	26,82,13,984
Income taxes paid	(2,61,16,622)	(1,30,38,900)
Net Cash Flow from Operating Activities	2,271,065,189	255,175,084
B. CASH FLOW FROM INVESTING ACTIVITIES		
Purchase of Fixed Assets during construction period, pending allocation)	(1262,50,87,612)	(552,96,87,873)
Proceeds from Sale of fixed assets	4,73,004	-
Purchase of Long term Investments	(71,92,000)	(5,10,000)
Sale / (Purchase) of Short term Investments (net)	(46,00,17,276)	22,23,72,094
Dividend received	16,94,978	5,55,64,301
Interest received	9,42,342	57,94,743
Net Cash Flow from Investing Activities	(1308,91,86,564)	(524,64,66,735)
C. CASH FLOW FROM FINANCING ACTIVITIES		
Proceeds from Share application money/ Share capital	142,77,68,000	15,30,36,000
Proceeds from Grant received from GOAP	-	71,65,00,000
Proceeds/(Repayment) of long term debt (Net)	1014,91,38,416	460,98,51,057
Interest Paid	(71,16,49,060)	(26,82,61,010)
Net Cash Flow from Financing Activities	1086,52,57,356	5,211,126,047
Net increase in Cash and Cash Equivalents	4,71,35,981	219,834,396
Cash and Cash Equivalents at the beginning of the year	50,52,65,061	285,430,665
Cash and Cash equivalents at the end of the year	55,24,01,042	505,265,061

Notes :

1. The above cash flow statement has been prepared under the 'Indirect Method' as set out in the Accounting Standard - 3 on Cash Flow Statements issued by the Institute of Chartered Accountants of India.
2. Previous year's figures have been regrouped and reclassified to conform to those of the current year.

This is the Cash Flow Statement referred to in our report of even date.

For and on behalf of the Board

Sd/-
P. Ramakrishna
Partner
Membership No. 22795
For and on behalf of
Price Waterhouse
Chartered Accountants

Sd/-
Kiran Kumar Grandhi
Managing Director

Sd/-
R S S L N Bhaskarudu
Director

Sd/-
Rajgopal Swami
Chief Financial Officer &
Company Secretary

Place: Hyderabad
Date: May 14, 2008

Balance Sheet Abstract and Company's General Business Profile

1	Registration Details		
	Registration No.	40118	State Code
			01
	Balance Sheet Date	March 31, 2008	
2	Capital raised during the year (Amount in Rs. Thousands)		
	Public Issue	Nil	Rights Issue
			Nil
	Bonus Issue	Nil	Private Placement
			Nil
3.	Position of Mobilisation and Development of Funds (Amount in Rs. Thousands)		
	Total Liabilities	2,33,64,438	Total assets
			2,33,64,438
	Sources Funds		
	Paid - Up Capital	587	Share Application Money
			34,83,677
	Reserves & Surplus	Nil	Unsecured Loans
			33,94,824
	Secured Loan	1,54,15,350	Grant from GOAP
			10,70,000
	Application of Funds		
	Net Fixed Assets	2,47,45,026	Investments
			8,98,636
	Net Current Assets	(28,57,301)	Misc. Expenditure
			Nil
	Accumulated Losses	5,78,078	
4.	Performance of company (Amount in Rs. Thousands)		
	Total Income	N.A	Total Expenditure
			N.A
5.	Generic Names of Three Principal Products / Services of Company (as per monetary terms)		
	Item Code No. :	N.A	
	Product Description	N.A	

For and on behalf of the Board

Sd/-
P. Ramakrishna
 Partner
 Membership No. 22795
 For and on behalf of
Price Waterhouse
 Chartered Accountants

Sd/-
Kiran Kumar Grandhi
 Managing Director

Sd/-
R S S L N Bhaskarudu
 Director

Sd/-
Rajgopal Swami
 Chief Financial Officer &
 Company Secretary

Place: Hyderabad
 Date: May 14, 2008

Attachments pursuant to Section 212 of the Companies Act, 1956, in relation to the following subsidiaries of the company.

GMR Hyderabad Aerotropolis Limited

GMR Hyderabad Airport Resource Management Limited

GMR Hyderabad Airport Security Services Limited

Hyderabad Menzies Air Cargo Private Limited

Documents Attached:

1. Statement of the company's interest in the above subsidiaries as required by section 212(3) of the companies Act, 1956
2. Balance sheet of the above subsidiaries
3. Profit & Loss Account of the above subsidiaries (as applicable)
4. Directors' Report of the above subsidiaries
5. Auditors' Report of the above subsidiaries

GMR HYDERABAD AEROTROPOLIS LIMITED

REPORT OF THE DIRECTORS' FOR THE PERIOD ENDED MARCH 31, 2008

To,
The Members,
GMR Hyderabad Aerotropolis Limited

Your Directors have pleasure in presenting the First Annual Report and the Audited Accounts for the period ended March 31, 2008, together with the Auditors' Report thereon.

Your company has received the Certificate of Incorporation on the 18th day of July 2007 from the Registrar of Companies, Andhra Pradesh. The company received the Certificate of Commencement of Business on the 28th September 2007.

During the year, your company did not carry out any commercial activities, hence there was no income from operations and accordingly no Profit and Loss Account was prepared. A Balance Sheet has been prepared for the period 18th July 2007 to 31st March 2008, being the First Financial Year of your company.

The Company is incorporated to engage in the business of property development in and around the Rajiv Gandhi International Airport. Lot of aviation linked business, time sensitive manufacture industries, hotel and entertainment industry is likely to get concentrated around the airport and the company proposes to engage in all this development activity. Detailed Master Planning and Infrastructure Planning for Commercial Property Development is currently being carried out by the company.

Directors

Composition and size of the Board of Directors

The Board of the company presently comprises of the following directors:

1. Mr. G M Rao, Chairman
2. Mr. Srinivas Bommidala, Co-Chairman
3. Mr. C Prasanna
4. Mr. T Srinagesh
5. Mr. Rajgopal Swami

Mr. C Prasanna, Mr. T Srinagesh and Mr. Rajgopal Swami were named as First Directors as per the Articles of Association of your company. Mr. G M Rao and Mr. Srinivas Bommidala were co-opted as Additional Directors with effect from 29th September 2007.

Mr. G M Rao, Mr. Srinivas Bommidala, Mr. C Prasanna, Mr. T Srinagesh and Mr. Rajgopal Swami would hold office till the ensuing Annual General Meeting.

Notices under Section 257 of the Companies Act, 1956 have been received from the shareholders of the company signifying the candidature of Mr. G M Rao, Mr. Srinivas Bommidala, Mr. C Prasanna, Mr. T Srinagesh and Mr. Rajgopal Swami for the office of Director of the company.

Directors' Responsibility Statement

Your directors confirm that

1. in the preparation of the annual accounts for the financial period ended 31st March, 2008, the applicable accounting standards have been followed along with proper explanation relating to material departures.
2. the Directors have selected such accounting policies and applied them consistently and made judgments and estimates that are reasonable and prudent so as to give a true and fair view of the state of affairs of the Company at the end of the financial period ended 31st March, 2008
3. the Directors have taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of the Companies Act, 1956 for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities
4. the Directors have prepared the accounts for the financial period ended 31st March, 2008 on a 'going concern' basis.

Holding Company

Consequent upon GMR Hyderabad International Airport Limited subscribing to the Memorandum of Association, subscribing to 50000 equity shares of Rs.10/- each, your company became a wholly owned subsidiary of GMR Hyderabad International Airport Limited.

Auditors

The Board of Directors of your company has appointed M/s. Price Waterhouse, Chartered Accountants, Hyderabad as the First Auditors of the company. M/s Price Waterhouse holds office till the ensuing Annual General Meeting. The proposal for appointment of M/s Price Waterhouse as the Statutory Auditors of the company will be placed before the shareholders at the ensuing Annual General Meeting. M/s Price Waterhouse has confirmed their eligibility and willingness to accept office, if re- appointed.

Conservation of Energy, Technology Absorption & Foreign Exchange Earnings & Outgo

The particulars as required under sub-section (1)(e) of Section 217 of the Companies Act, 1956, read with the Companies (Disclosure of particulars in the Report of the Board of Directors) Rules, 1988, are not applicable to your company. During the period under review, there were no foreign exchange earnings or outgo.

Particulars of Employees

Particulars required to be disclosed under Section 217(2A) of the Companies Act, 1956 read with Companies (Particulars of Employees) Rules, 1975, as amended, are not applicable for the company.

Acknowledgment

Your Directors take this opportunity to express their sincere thanks and gratitude to GMR Hyderabad International Airport Limited for its co-operation and support.

For and on behalf of the Board of Directors

Sd/-
C Prasanna
Director

Sd/-
Rajgopal Swami
Director

Place: Hyderabad
Date: May 14, 2008

AUDITORS' REPORT TO THE MEMBERS OF GMR HYDERABAD AEROTROPOLIS LIMITED

1. We have audited the attached Balance Sheet of GMR Hyderabad Aerotropolis Limited ("the Company") as at March 31, 2008, and Cash Flow Statement for the period ended on that date annexed thereto, which we have signed under reference to this report. No Profit and Loss Account has been prepared for the reason stated in Note II (2) of Schedule F. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.
2. We conducted our audit in accordance with the auditing standards generally accepted in India. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes, examining on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.
3. As required by the Companies (Auditor's Report) Order, 2003, as amended by the Companies (Auditor's Report) (Amendment) Order, 2004, issued by the Central Government of India in terms of sub-section (4A) of Section 227 of 'The Companies Act, 1956' of India (the 'Act') and on the basis of such checks of the books and records of the company as we considered appropriate and according to the information and explanations given to us, we give in the Annexure to this report, a statement on the matters specified in paragraphs 4 and 5 of the said Order.
4. Further to our comments in the Annexure referred to in paragraph 3 above, we report that:
 - (a) We have obtained all the information and explanations, which to the best of our knowledge and belief were necessary for the purposes of our audit;
 - (b) In our opinion, proper books of account as required by law have been kept by the company so far as appears from our examination of those books;
 - (c) The Balance Sheet and Cash Flow Statement dealt with by this report are in agreement with the books of account;
 - (d) In our opinion, the Balance Sheet and Cash Flow Statement dealt with by this report comply with the accounting standards referred to in sub-section (3C) of Section 211 of the Act;
 - (e) On the basis of written representations received from the directors, as on March 31, 2008 and taken on record by the Board of Directors, none of the directors is disqualified as on March 31, 2008 from being appointed as a director in terms of clause (g) of sub-section (1) of Section 274 of the Act;
 - (f) In our opinion and to the best of our information and according to the explanations given to us, the said financial statements together with the notes thereon and attached thereto give in the prescribed manner the information required by the Act and give a true and fair view in conformity with the accounting principles generally accepted in India:
 - (i) in the case of the Balance Sheet, of the state of affairs of the company as at March 31, 2008; and
 - (ii) in the case of the Cash Flow Statement, of the cash flows for the period ended on that date.

Place: Hyderabad
Date: May 14, 2008

Sd/-
P. Rama Krishna
Partner
Membership No. 22795
For and on behalf of
Price Waterhouse
Chartered Accountants

ANNEXURE TO AUDITORS' REPORT

[Referred to in paragraph 3 of the Auditors' Report of even date to the members of GMR Hyderabad Aerotropolis Limited on the financial statements for the period ended March 31, 2008]

1. The company has neither granted nor taken any loans, secured or unsecured, to/from companies, firms or other parties covered in the register maintained under Section 301 of the Act.
2. According to the information and explanations given to us, there have been no contracts or arrangements referred to in Section 301 of the Act during the period to be entered in the register required to be maintained under that Section. Accordingly, commenting on transactions made in pursuance of such contracts or arrangements does not arise.
3. The company has not accepted any deposits from the public within the meaning of Sections 58A and 58AA of the Act and the rules framed there under.
4. As the company is not listed on any stock exchange or the paid-up capital and reserves as at the commencement of the financial year did not exceed Rupees Fifty Lakhs or the average annual turnover for a period of three consecutive financial years immediately preceding the financial year did not exceed Rupees Five Crores, clause (vii) of paragraph 4 of the Companies (Auditor's Report) Order, 2003 is not applicable to the company for the current period.
5. (a) According to the information and explanations given to us and the records of the company examined by us, in our opinion, the company is generally regular in depositing the undisputed statutory dues including income-tax, service tax and other material statutory dues as applicable with the appropriate authorities. According to the information and explanation given to us and the records of the company examined by us, provident fund, investor education and protection fund, employees' state insurance, sales-tax, wealth tax, customs duty, excise duty and cess are not applicable to the Company for the current period.
(b) According to the information and explanations given to us and the records of the company examined by us, there are no dues of income-tax, and service tax which have not been deposited on account of any dispute. According to the information and explanations given to us and the records of the company examined by us, sales tax, wealth tax, customs duty, excise duty and cess are not applicable to the Company for the current period.
6. As the company is registered for a period less than five years, clause (x) of paragraph 4 of the Companies (Auditor's Report) Order, 2003, as amended by the Companies (Auditor's Report) (Amendment) Order, 2004, is not applicable to the company for the current period.
7. The company has not granted any loans and advances on the basis of security by way of pledge of shares, debentures and other securities.
8. The provisions of any special statute applicable to chit fund / nidhi / mutual benefit fund/societies are not applicable to the company.
9. In our opinion, the company is not a dealer or trader in shares, securities, debentures and other investments.
10. In our opinion and according to the information and explanations given to us, the company has not given any guarantee for loans taken by others from banks or financial institutions during the period.
11. The company has not obtained any term loans.
12. On the basis of an overall examination of the balance sheet of the company, in our opinion and according to the information and explanations given to us, there are no funds raised on a short-term basis which have been used for long-term investment.
13. The company has not made any preferential allotment of shares to parties and companies covered in the register maintained under Section 301 of the Act during the period.

14. The company has not raised any money by public issue during the period.
15. During the course of our examination of the books and records of the company, carried out in accordance with the generally accepted auditing practices in India, and according to the information and explanations given to us, we have neither come across any instance of fraud on or by the company, noticed or reported during the period, nor have we been informed of such case by the management.
16. The other clauses (i), (ii), (iii)(b), (iii)(c), (iii)(d), (iii)(f), (iii)(g), (iv), (v)(b), (viii), (xi) and (xix) of paragraph 4 of the Companies (Auditor's Report) Order 2003, as amended by the Companies (Auditor's Report) (Amendment) Order, 2004, are not applicable in the case of the company for the current period, since in our opinion there is no matter which arises to be reported in the aforesaid order.

Place: Hyderabad
Date: May 14, 2008

Sd/-
P. Rama Krishna
Partner
Membership No. 22795
For and on behalf of
Price Waterhouse
Chartered Accountants

GMR HYDERABAD AEROTROPOLIS LIMITED
Balance Sheet as at March 31, 2008

(Amount in Rupees)

	Schedule Ref	As at March, 31, 2008
I. SOURCE OF FUNDS		
1. Shareholder's Funds		
Capital	A	5,00,000
Total		5,00,000
II. APPLICATION OF FUNDS		
1. Expenditure during Construction Period		
Pending allocation (Net)	B	1,31,550
2. Current Assets, Loans Advances		
a) Cash and Bank Balances	C	2,01,111
b) Loans and Advances	D	3,49,440
		5,50,551
Less: Current Liabilities and Provisions	E	
a) Current Liabilities		1,82,101
b) Provisions		-
		1,82,101
Net Current Assets		3,68,450
Total		5,00,000
Statement on Significant Accounting Policies and Notes to the Accounts	F	

The Schedules referred to above form an integral part of the Balance Sheet

This is the Balance Sheet referred to in our report of even date

For and on behalf of the Board of Directors

Sd/-
P. Ramakrishna
Partner
Membership No. 22795
For and on behalf of
Price Waterhouse
Chartered Accountants

Sd/-
Rajgopal Swami
Director

Sd/-
C. Prasanna
Director

Place : Hyderabad
Date : May 14, 2008

GMR HYDERABAD AEROTROPOLIS LIMITED
Schedules forming part of Balance Sheet as at March 31, 2008

(Amount in Rupees)

SCHEDULE - A - Capital	As at March 31, 2008
Authorised 50,000 Equity Shares of Rs. 10/- each	5,00,000
Issued, Subscribed and Paid-up 50,000 Equity Shares of Rs. 10/- each fully paid up (Above shares are held by Holding company- GMR Hyderabad International Airport Limited and its nominees)	5,00,000
	5,00,000
SCHEDULE - B - Expenditure during construction period, pending allocation (Net)	As at March 31, 2008
Consultancy Expenses	9,032
Remuneration to Auditors	
Audit Fee	1,00,000
Printing and Stationary expenses	1,198
Preliminary expenses	21,320
	1,31,550
SCHEDULE - C - Cash and Bank Balances	As at March 31, 2008
Balances with Scheduled Banks - in Current Accounts	2,01,111
	2,01,111
SCHEDULE - D - Loans and Advances	As at March 31, 2008
(Unsecured, considered good)	
Advances recoverable in cash or in kind or for value to be received	3,00,000
Balances with Customs, Excise, etc	49,440
	3,49,440
SCHEDULE - E - Current Liabilities and Provisions	As at March 31, 2008
Current Liabilities	
Sundry Creditor	
- Due to Micro, small and Medium Enterprises	-
- Due to other than Micro, small and Medium Enterprises	1,31,180
Other Liabilities	50,921
	1,82,101
Provisions	-
*Classification is on the basis of information available with the company	1,82,101

SCHEDULE - F

Statement on significant police and notes to the accounts.

Background:

The Company was incorporated on 18th July, 2007 as a Wholly owned subsidiary of GMR Hyderabad International Airport Limited. The main objective of the company is to engage in the business of property development activities in and around the new Hyderabad international airport at Shamshabad.

I. SIGNIFICANT ACCOUNTING POLICIES

1. Accounting Assumptions:

These accounts have been prepared under the historical cost convention on the basis of a going concern, with revenues recognised and expenses accounted on their accrual and amounts determined as payable or receivable during the year, except those with significant uncertainties, and in accordance with the applicable Accounting Standards as issued by the Institute of Chartered Accountants of India and relevant provisions of the Companies Act, 1956

II. NOTES ON ACCOUNTS

- (A) Contingent Liabilities : Rs. Nil
(B) Estimated Amount of contracts remaining to be executed on capital account and not provided for (Net of Advances): Rs.3,00,000/-
- The company has not commenced business operations. Consequently no Profit and Loss Account has been drawn up. All the expenditure incurred during the construction stage are grouped and disclosed under expenditure during construction year, pending allocation (net) in Schedule B.

3. Details of transactions with Related Parties

A Name of related parties and description of relationship.

(i) Holding company	GMR Hyderabad International Airport Limited (GHIAL)
(ii) Holding company's Holding Company	GMR Infrastructure Limited (GIL)
(iii) Ultimate Holding Company	GMR Holding Private Limited (GHPL)

B. Summary of Transactions with the above related parties is as follows:

(Amount in Rupees)

	Related Party Transactions	March 31, 2008
(i)	Share Capital allotted Holding Company	5,00,000

Notes:

- Transactions and outstanding balances in the nature of reimbursement of expenses incurred by one company on behalf of the other have not been considered as Related party transactions.
- Company has paid any interest or any interest payable is outstanding to Micro, Small or Medium Enterprises (Under the provisions of Section 16 of the Micro, Small and Medium Enterprises Development Act, 2006) during the period ending March 31, 2008.

5. Auditors Remuneration:

(Amount in Rupees)

Particulars	March 31, 2008
Audit Fee (Excluding Services Tax)	1,00,000
Total	1,00,000

- The company was incorporated on 18th July, 2007. Accordingly, the financial statements have been prepared for the period from 18th July, 2007 to 31st March, 2008 and previous year figures are not applicable to the company.
- Additional Information pursuant to paragraphs 3, 4, 4-C and 4-D of part - II of Schedule VI to the Companies Act, 1956 to the extent either "Nil" or "Not Applicable" has not been furnished.

Sd/-

P. Ramakrishna
Partner
Membership No. 22795
For and on behalf of
Price Waterhouse
Chartered Accountants

Sd/-

For and on behalf of the Board of Directors
Rajgopal Swami
Director

Sd/-

C. Prasanna
Director

Place : Hyderabad
Date : May 14, 2008

GMR HYDERABAD AEROTROPOLIS LIMITED

(Amount in Rupees)

CASH FLOW STATEMENT FOR THE PERIOD ENDED MARCH 31, 2008	2008
A. CASH FLOW FROM/(USED IN) OPERATING ACTIVITIES	
Net Profit Before Tax and Extra Ordinary items	-
Adjustment for working capital changes :	
(Increase) / Decrease in Loans and Advances	(349,440)
Increase / (Decrease) in Current Liabilities and Provisions	182,101
NET CASH FLOW FROM OPERATING ACTIVITIES	(167,339)
B. CASH FLOW FROM / (USED IN) INVESTING ACTIVITIES	
Purchase of Fixed Assets and Change in Capital Work in Progress	-
Expenditure During Construction Period Pending allocation (net)	(131,550)
NET CASH USED IN INVESTING ACTIVITIES	(131,550)
C. CASH FLOW FROM/ (USED IN) FINANCING ACTIVITIES	
Proceeds from issue of Share Capital	500,000
NET CASH FLOW FROM FINANCING ACTIVITIES	500,000
NET INCREASE IN CASH AND CASH EQUIVALENTS DURING THE PERIOD	201,111
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD	-
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	201,111
Notes :	
1. The above cash flow statement has been prepared under the 'Indirect Method' as set out in the Accounting Standard - 3 on Cash Flow Statements issued by the Institute of Chartered Accountants of India.	
2. This being the first cash flow after incorporation, previous years figures are not applicable.	

This is the Cash Flow Statement referred to in our report of even date.

For and on behalf of the Board of Directors

Sd/-
P. Ramakrishna
Partner
Membership No. 22795
For and on behalf of
Price Waterhouse
Chartered Accountants

Sd/-
Rajgopal Swami
Director

Sd/-
C. Prasanna
Director

Place : Hyderabad
Date : May 14, 2008

GMR HYDERABAD AEROTROPOLIS LIMITED

Balance Sheet Abstract and Company's General Business Profile

1	Registration Details			
	Registration No.\ CIN	U45400AP2007PLC054827	State Code	01
	Balance Sheet Date	March 31, 2008		
2	Capital Raised during the year (Amount in Rs. Thousands)			
	Public Issue	Nil	Rights Issue	Nil
	Bonus Issue	Nil	Private Placement	Nil
3	Position of Mobilisation and Development of Funds (Amount in Rs. Thousands)			
	Total Liabilities	500	Total assets	500
	Sources of Funds			
	Paid - Up Capital	500	Share Application Money	Nil
	Reserves & Surplus	Nil	Unsecured Loans	Nil
	Secured Loan	Nil	Grant from GOAP	Nil
	Application of Funds			
	Net Fixed Assets	132	Investments	Nil
	Net Current Assets	368	Misc. Expenditure	Nil
	Accumulated Losses	Nil		
	4	Performance of company (Amount in Rs. Thousands)		
Total Income		N.A	Total Expenditure	N.A
5	Generic Names of Three Principal Products / Services of Company (as per monetary terms)			
	Item Code No. :	N.A		
	Product Description	N.A		

For and on behalf of the Board of Directors

Sd/-
Rajgopal Swami
 Director

Sd/-
C. Prasanna
 Director

Place : Hyderabad
 Date : May 14, 2008

GMR HYDERABAD AIRPORT RESOURCE MANAGEMENT LIMITED

REPORT OF THE DIRECTORS' FOR THE PERIOD ENDED MARCH 31, 2008

To,
The Members,
GMR Hyderabad Airport Resource Management Limited

Your Directors have pleasure in presenting the First Annual Report and the Audited Accounts for the period ended March 31, 2008, together with the Auditors' Report thereon.

Your company has received the Certificate of Incorporation on the 18th day of July 2007 from the Registrar of Companies, Andhra Pradesh. The company received the Certificate of Commencement of Business on the 28th September 2007.

Your Company is incorporated with the objective of providing specialised and skilled manpower to the various allied and ancillary activities at the Rajiv Gandhi International Airport and provide certain manpower related services. The company has commenced activities and currently provides approximately 132 personnel specialised in the hospitality industry towards the Hotel operations of GMR Hyderabad International Airport Limited, which is likely to commence during the financial year 2008-09.

A Balance Sheet for your company has been prepared for the period 18th July 2007 to 31st March 2008, being the First Financial Year of your company. A Profit and Loss Account for the period ended March 31, 2008 was also prepared.

Directors

Composition and size of the Board of Directors

The Board of the company presently comprises of the following directors:

1. Mr. C Prasanna
2. Mr. T Srinagesh
3. Mr. Rajgopal Swami

Mr. C Prasanna, Mr. T Srinagesh and Mr. Rajgopal Swami were named as First Directors as per the Articles of Association of your company.

Mr. C Prasanna, Mr. T Srinagesh and Mr. Rajgopal Swami would hold office till the ensuing Annual General Meeting.

Notices under Section 257 of the Companies Act, 1956 have been received from the shareholders of the company signifying the candidature of Mr. C Prasanna, Mr. T Srinagesh and Mr. Rajgopal Swami for the office of Director of the company.

Directors' Responsibility Statement

Your Directors confirm that

1. in the preparation of the annual accounts for the financial period ended 31st March, 2008, the applicable accounting standards have been followed along with proper explanation relating to material departures.
2. the Directors have selected such accounting policies and applied them consistently and made judgments and estimates that are reasonable and prudent so as to give a true and fair view of the state of affairs of the Company at the end of the financial period ended 31st March, 2008

3. the Directors have taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of the Companies Act, 1956 for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities
4. the Directors have prepared the accounts for the financial period ended 31st March, 2008 on a 'going concern' basis.

Holding Company

Consequent upon GMR Hyderabad International Airport Limited subscribing to the Memorandum of Association, subscribing to 50000 equity shares of Rs.10/- each, your company became a wholly owned subsidiary of GMR Hyderabad International Airport Limited.

Auditors

The Board of Directors of your company has appointed M/s. Price Waterhouse, Chartered Accountants, Hyderabad as the First Auditors of the company. M/s Price Waterhouse holds office till the ensuing Annual General Meeting. The proposal for appointment of M/s Price Waterhouse as the Statutory Auditors of the company will be placed before the shareholders at the ensuing Annual General Meeting. M/s Price Waterhouse has confirmed their eligibility and willingness to accept office, if re- appointed.

Conservation of Energy, Technology Absorption & Foreign Exchange Earnings & Outgo

The particulars as required under sub-section (1)(e) of Section 217 of the Companies Act, 1956, read with the Companies (Disclosure of particulars in the Report of the Board of Directors) Rules, 1988, are not applicable to your company. During the period under review, there were no foreign exchange earnings or outgo.

Particulars of Employees

Particulars required to be disclosed under Section 217(2A) of the Companies Act, 1956 read with Companies (Particulars of Employees) Rules, 1975, as amended, are not applicable for the company.

Acknowledgment

Your Directors take this opportunity to express their sincere thanks and gratitude to GMR Hyderabad International Airport Limited for its co-operation and support.

For and on behalf of the Board of Directors

Sd/-

C Prasanna

Director

Sd/-

Rajgopal Swami

Director

Place: Hyderabad

Date: May 14, 2008

AUDITORS' REPORT TO THE MEMBERS OF GMR HYDERABAD AIRPORT RESOURCE MANAGEMENT LIMITED

1. We have audited the attached Balance Sheet of GMR Hyderabad Airport Resource Management Limited ("the Company") as at March 31, 2008, and the related Profit and Loss Account and Cash Flow Statement for the period ended on that date annexed thereto, which we have signed under reference to this report. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.
2. We conducted our audit in accordance with the auditing standards generally accepted in India. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes, examining on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.
3. As required by the Companies (Auditor's Report) Order, 2003, as amended by the Companies (Auditor's Report) (Amendment) Order, 2004, issued by the Central Government of India in terms of sub-section (4A) of Section 227 of 'The Companies Act, 1956' of India (the 'Act') and on the basis of such checks of the books and records of the company as we considered appropriate and according to the information and explanations given to us, we give in the Annexure to this report, a statement on the matters specified in paragraphs 4 and 5 of the said Order.
4. Further to our comments in the Annexure referred to in paragraph 3 above, we report that:
 - (a) We have obtained all the information and explanations, which to the best of our knowledge and belief were necessary for the purposes of our audit;
 - (b) In our opinion, proper books of account as required by law have been kept by the company so far as appears from our examination of those books;
 - (c) The Balance Sheet, Profit and Loss Account and Cash Flow Statement dealt with by this report are in agreement with the books of account;
 - (d) In our opinion, the Balance Sheet, Profit and Loss Account and Cash Flow Statement dealt with by this report comply with the accounting standards referred to in sub-section (3C) of Section 211 of the Act;
 - (e) On the basis of written representations received from the directors, as on March 31, 2008 and taken on record by the Board of Directors, none of the directors is disqualified as on March 31, 2008 from being appointed as a director in terms of clause (g) of sub-section (1) of Section 274 of the Act;
 - (f) In our opinion and to the best of our information and according to the explanations given to us, the said financial statements together with the notes thereon and attached thereto give in the prescribed manner the information required by the Act and give a true and fair view in conformity with the accounting principles generally accepted in India:
 - (i) in the case of the Balance Sheet, of the state of affairs of the company as at March 31, 2008;
 - (ii) in the case of the Profit and Loss Account, of the loss for the period ended on that date; and
 - (iii) in the case of the Cash Flow Statement, of the cash flows for the period ended on that date.

Sd/-

P. Rama Krishna, Partner
Membership No. 22795
For and on behalf of
Price Waterhouse
Chartered Accountants

Place: Hyderabad
Date: May 14, 2008

ANNEXURE TO AUDITORS' REPORT

[Referred to in paragraph 3 of the Auditors' Report of even date to the members of GMR Hyderabad Airport Resource Management Limited on the financial statements for the period ended March 31, 2008]

1. The company has neither granted nor taken any loans, secured or unsecured, to/from companies, firms or other parties covered in the register maintained under Section 301 of the Act.
2. In our opinion and according to the information and explanations given to us, there is an adequate internal control system commensurate with the size of the company and the nature of its business for the sale of services. The activities of the Company did not involve purchase of inventory, fixed assets and sale of goods during the financial period. Further, on the basis of our examination of the books and records of the company, and according to the information and explanations given to us, we have neither come across nor have been informed of any continuing failure to correct major weaknesses in the aforesaid internal control system.
3. According to the information and explanations given to us, there have been no contracts or arrangements referred to in Section 301 of the Act during the period to be entered in the register required to be maintained under that Section. Accordingly, commenting on transactions made in pursuance of such contracts or arrangements does not arise.
4. The company has not accepted any deposits from the public within the meaning of Sections 58A and 58AA of the Act and the rules framed there under.
5. As the company is not listed on any stock exchange or the paid-up capital and reserves as at the commencement of the financial year did not exceed Rupees Fifty Lakhs or the average annual turnover for a period of three consecutive financial years immediately preceding the financial year did not exceed Rupees Five Crores, clause (vii) of paragraph 4 of the Companies (Auditor's Report) Order, 2003 is not applicable to the company for the current period.
6. (a) According to the information and explanations given to us and the records of the company examined by us, in our opinion, the company is generally regular in depositing the undisputed statutory dues including provident fund, income-tax, and service tax and other material statutory dues as applicable with the appropriate authorities. According to the information and explanation given to us and the records of the company examined by us, investor education and protection fund, employees' state insurance, sales-tax, wealth tax, Customs duty, excise duty and cess are not applicable to the Company for the current period.

(b) According to the information and explanations given to us and the records of the company examined by us, there are no dues of income-tax, and service tax which have not been deposited on account of any dispute. According to the information and explanations given to us and the records of the company examined by us, sales tax, wealth tax, customs duty, excise duty and cess are not applicable to the Company for the current period.
7. As the company is registered for a period less than five years, clause (x) of paragraph 4 of the Companies (Auditor's Report) Order, 2003, as amended by the Companies (Auditor's Report) (Amendment) Order, 2004, is not applicable to the company for the current period.
8. The company has not granted any loans and advances on the basis of security by way of pledge of shares, debentures and other securities.
9. The provisions of any special statute applicable to chit fund / nidhi / mutual benefit fund/societies are not applicable to the company.
10. In our opinion, the company is not a dealer or trader in shares, securities, debentures and other investments.

11. In our opinion and according to the information and explanations given to us, the company has not given any guarantee for loans taken by others from banks or financial institutions during the period.
12. The company has not obtained any term loans.
13. On the basis of an overall examination of the balance sheet of the company, in our opinion and according to the information and explanations given to us, there are no funds raised on a short-term basis which have been used for long-term investment.
14. The company has not made any preferential allotment of shares to parties and companies covered in the register maintained under Section 301 of the Act during the period.
15. The company has not raised any money by public issue during the period.
16. During the course of our examination of the books and records of the company, carried out in accordance with the generally accepted auditing practices in India, and according to the information and explanations given to us, we have neither come across any instance of fraud on or by the company, noticed or reported during the period, nor have we been informed of such case by the management.
17. The other clauses (i), (ii), (iii)(b), (iii)(c), (iii)(d), (iii)(f), (iii)(g), (v)(b), (viii), (xi) and (xix) of paragraph 4 of the Companies (Auditor's Report) Order 2003, as amended by the Companies (Auditor's Report) (Amendment) Order, 2004, are not applicable in the case of the company for the current period, since in our opinion there is no matter which arises to be reported in the aforesaid order.

Place: Hyderabad
Date: May 14, 2008

Sd/-
P. Rama Krishna
Partner
Membership No. 22795
For and on behalf of
Price Waterhouse
Chartered Accountants

GMR HYDERABAD AIRPORT RESOURCE MANAGEMENT LIMITED
Balance Sheet as at March 31, 2008

(Amount in Rupees)

	Schedule Ref	As at March, 31, 2008
I. SOURCE OF FUNDS		
1. Shareholder's Funds		
Capital	A	5,00,000
Total		5,00,000
II. APPLICATION OF FUNDS		
1. Current Assets, Loans Advances		
a) Cash and Bank Balances	B	17,16,627
b) Loans and Advances	C	2,52,31,680
		2,69,48,307
Less: Current Liabilities & Provisions		
a) Current Liabilities	D	2,64,27,783
b) Provisions		1,53,594
		2,65,81,377
Net Current Assets		3,66,930
2. Profit & Loss Account		1,33,070
Total		5,00,000
Statement on Significant Accounting Policies and Notes to the Accounts	F	

The Schedules referred to above form an integral part of the Balance Sheet

This is the Balance Sheet referred to in our report of even date

For and on behalf of the Board of Directors

Sd/-
P. Ramakrishna
 Partner
 Membership No. 22795
 For and on behalf of
Price Waterhouse
 Chartered Accountants

Sd/-
Rajgopal Swami
 Director

Sd/-
C. Prasanna
 Director

Place: Hyderabad
 Date: May 14, 2008

GMR HYDERABAD AIRPORT RESOURCE MANAGEMENT LIMITED
Profit and Loss account for the period ended 31st March, 2008

(Amount in Rupees)

Particulars	Schedule Ref	As at March 31, 2008
I. Income		-
Total Income		-
II. Expenses		
Administration Cost	E	1,11,750
Preliminary expenses		21,320
Total Expenses		1,33,070
III. Profit Before Interest & Depreciation		(133,070)
Finance Cost		-
Depreciation Cost		-
IV. Profit Before Taxation		(133,070)
Provision for Taxation		-
V. Profit After Taxation		(133,070)
VI. Available Surplus Carried to Balance Sheet		(133,070)
Earnings Per Share (Rs.) - Basis & Diluted		(3.78)

For and on behalf of the Board of Directors

Sd/-
P. Ramakrishna
Partner
Membership No. 22795
For and on behalf of
Price Waterhouse
Chartered Accountants

Sd/-
Rajgopal Swami
Director

Sd/-
C. Prasanna
Director

Place: Hyderabad
Date: May 14, 2008

GMR HYDERABAD AIRPORT RESOURCE MANAGEMENT LIMITED
Schedules forming part of Balance Sheet as at March 31, 2008

(Amount in Rupees)

SCHEDULE - A - Capital	As at March 31, 2008
Authorised 50,000 Equity Shares of Rs.10/- each	5,00,000
Issued, Subscribed and Paid-up 50,000 Equity Shares of Rs.10/- each fully paid up (Above shares are held by Holding company- GMR Hyderabad International Airport Limited and nominees)	5,00,000
	5,00,000
SCHEDULE - B - Cash and Bank Balances	As at March 31, 2008
Cash on Hand	1,825
Balances with Scheduled Banks - in Current Accounts	17,14,802
	17,16,627
SCHEDULE - C - Loans and Advances	As at March 31, 2008
(Unsecured, considered good) Advances recoverable in cash or in kind or for value to be received Balances with Customs, Excise, etc	2,49,74,657 2,57,023
	2,52,31,680
SCHEDULE - D - Current Liabilities and Provisions	As at March 31, 2008
Current Liabilities Sundry Creditor - Due to Micro, small and Medium Enterprises* - Due to other than Micro, small and Medium Enterprises Other Liabilities	- 2,38,66,606 25,61,177
	2,64,27,873
Provisions Provision for Gratuity Provision for other employee benefits *Classification is on the basis of information available with the company	83,496 70,098 1,53,594
SCHEDULE - E - Administration Cost	As at March 31, 2008
Consultancy and other professional charges	10,007
Remuneration to auditors Audit fees	1,00,000
Traveling and Conveyance Miscellaneous expenses	450 1,293
	1,11,750

GMR HYDERABAD AIRPORT RESOURCE MANAGEMENT LIMITED

Statement on Significant Accounting Policies and Notes to the Accounts

SCHEDULE - F

Background:

The Company was incorporated on 18th July, 2007 as a wholly owned subsidiary of GMR Hyderabad International Airport Limited. The main objective of the company is to provide specialized manpower and manpower management services at the New Hyderabad International Airport at Shamshabad.

I. SIGNIFICANT ACCOUNTING POLICIES

1. Accounting Assumptions:

These accounts have been prepared under the historical cost convention on the basis of a going concern, with revenues recognised and expenses accounted on their accrual and amounts determined as payable or receivable during the year, except those with significant uncertainties, and in accordance with the applicable Accounting Standards as issued by the Institute of Chartered Accountants of India and relevant provisions of the Companies Act, 1956

2. Earnings per Share :

The earnings considered in ascertaining the Company's Earnings per Share (EPS) comprised the net profit/(loss) after tax. The number of shares used in computing Basic EPS is the weighted average number of equity shares which could have been issued to the conversion of all dilutive potential equity shares which applicable. Dilutive potential equity shares are deemed to have been converted as of the beginning of the year, unless they have been issued at a later date

II. NOTES ON ACCOUNTS

1. (a) Contingent Liabilities : Rs. Nil
(b) Claims against the Company not acknowledged as debt : Nil
2. (a) Company has sent all its employees on secondment to the holding company and accordingly expenditure on such employees has not been considered in the profit and loss account.
(b) Defined Benefit Plan :
Amount recognised in the Balance Sheet towards defined benefit plans (Gratuity and Leave Encashment) under Accounting Standard AS-15 (Revised 2005) is Rs. 1,53,594/-
(c) Defined Contribution Plan :
In respect of defined contribution plans (Provident Fund) and amount of Rs. 6,27,612/- has been claimed as reimbursement of expenses from GMR Hyderabad International Airport Limited.

3. Details of transactions with Related Parties

A Name of related parties and description of relationship.

(i) Holding company	GMR Hyderabad International Airport Limited (GHIAL)
(ii) Holding company's Holding Company	GMR Infrastructure Limited (GIL)

B. Summary of Transactions with the above related parties is as follows: (Amount in Rupees)

	Related Party Transactions	March 31, 2008
(i)	Share Capital allotted Holding Company	500,000
(ii)	Advances received Holding Company	2,33,00,000

C. Out standing balances as at the year end: (Amount in Rupees)

	Particulars	March 31, 2008
(i)	Balance Payable: Holding Company	2,33,00,000

Notes

- (i) Transactions and outstanding balances in the nature of reimbursement of expenses incurred by one company on behalf of the other have not been considered as Related party transactions.:

GMR HYDERABAD AIRPORT RESOURCE MANAGEMENT LIMITED
Statement on Significant Accounting Policies and Notes to the Accounts

3. Earnings Per Share (EPS)*: (Amount in Rupees)

Particulars	March 31, 2008
a. Profit/(loss) after tax (Rs.)	(133,070)
b. Weighted average number of Equity Shares of Rs. 10 each outstanding during the period. (Used for calculation of Basic earnings per Share)	35,246
c. Earning per share Basic and diluted (Rs.)	(3,78)

4. Company has paid any interest or any interest payable is outstanding to Micro, Small or Medium Enterprises(Under the provisions of Section 16 of the Micro, Small and Medium Enterprises Development Act, 2006) during the period ending March 31, 2008.

5. Auditors Remuneration: (Amount in Rupees)

Particulars	March 31, 2008
Auditors Fee(Excluding Service Tax)	1,00,000
Total	1,00,000

6. The company was incorporated on 18th July, 2007. Accordingly, this Balance Sheet covers the period from 18th July, 2007 to 31st March, 2008 and previous year figures are not applicable to the company.

7. Additional Information pursuant to paragraphs 3, 4, 4-C and 4-D of part - II of Schedule VI to the Companies Act, 1956 to the extent either "Nil" or "Not Applicable" has not been furnished.

For and on behalf of the Board of Directors

Sd/-
P. Ramakrishna
 Partner
 Membership No. 22795
 For and on behalf of
Price Waterhouse
 Chartered Accountants

Sd/-
Rajgopal Swami
 Director

Sd/-
C. Prasanna
 Director

Place: Hyderabad
 Date: May 14, 2008

GMR HYDERABAD AIRPORT RESOURCE MANAGEMENT LIMITED

(Amount in Rupees)

CASH FLOW STATEMENT FOR THE PERIOD ENDED MARCH 31, 2008	2008
A. CASH FLOW FROM/(USED IN) OPERATING ACTIVITIES	
Net Profit Before Tax and Extra Ordinary items	(133,070)
Adjustment for working capital changes :	
(Increase) / Decrease in Loans and Advances	(25,231,680)
Increase / (Decrease) in Current Liabilities and Provisions	26,581,377
NET CASH FLOW FROM OPERATING ACTIVITIES	1,216,627
B. CASH FLOW FROM / (USED IN) INVESTING ACTIVITIES	
Purchase of Fixed Assets and Change in Capital Work in Progress	-
NET CASH USED IN INVESTING ACTIVITIES	-
C. CASH FLOW FROM/ (USED IN) FINANCING ACTIVITIES	
Proceeds from issue of Share Capital	500,000
Proceeds from Unsecured Loans	-
NET CASH FLOW FROM FINANCING ACTIVITIES	500,000
NET INCREASE IN CASH AND CASH EQUIVALENTS DURING THE PERIOD	1,716,627
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD	-
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	1,716,627
Notes :	
1. The above cash flow statement has been prepared under the 'Indirect Method' as set out in the Accounting Standard - 3 on Cash Flow Statements issued by the Institute of Chartered Accountants of India.	
2. This being the first cash flow after incorporation, previous years figures are not applicable.	

This is the Cash Flow Statement referred to in our report of even date.

For and on behalf of the Board of Directors

Sd/-
P. Ramakrishna
Partner
Membership No. 22795
For and on behalf of
Price Waterhouse
Chartered Accountants

Sd/-
Rajgopal Swami
Director

Sd/-
C. Prasanna
Director

Place: Hyderabad
Date: May 14, 2008

GMR HYDERABAD AIRPORT RESOURCE MANAGEMENT LIMITED
Balance Sheet Abstract and Company's General Business Profile

1	Registration Details				
	Registration No.	U74900AP2007PCL054821	State Code	01	
	Balance Sheet Date	March 31, 2008			
2	Capital Raised during the year (Amount in Rs. Thousands)				
	Public Issue	Nil	Rights Issue	Nil	
	Bonus Issue	Nil	Private Placement	Nil	
3.	Position of Mobilisation and Development of Funds (Amount in Rs. Thousands)				
	Total Liabilities	500	Total assets	500	
	Sources Funds				
	Paid - Up Capital	500	Share Application Money	Nil	
	Reserves & Surplus	Nil	Unsecured Loans	Nil	
	Secured Loan	Nil	Grant from GOAP	Nil	
	Application of Funds				
	Net Fixed Assets	Nil	Investments	Nil	
	Net Current Assets	367	Misc. Expenditure	Nil	
	Accumulated Losses	133			
	4.	Performance of company (Amount in Rs. Thousands)			
		Total Income	N.A	Total Expenditure	N.A
	5.	Generic Names of Three Principal Products / Services of Company (as per monetary terms)			
Item Code No. :		N.A			
Product Description		N.A			

For and on behalf of the Board of Directors

Sd/-
Rajgopal Swami
 Director

Sd/-
C. Prasanna
 Director

Place : Hyderabad
 Date : May 14, 2008

HYDERABAD AIRPORT SECURITY SERVICES LIMITED

REPORT OF THE DIRECTORS' FOR THE PERIOD ENDED MARCH 31, 2008

To,
The Members,
Hyderabad Airport Security Services Limited

Your Directors have pleasure in presenting the First Annual Report and the Audited Accounts for the period ended March 31, 2008, together with the Auditors' Report thereon.

Your company has received the Certificate of Incorporation on the 20th day of July 2007 from the Registrar of Companies, Andhra Pradesh. The company received the Certificate of Commencement of Business on the 28th September 2007.

During the year, your company did not carry out any commercial activities, hence there was no income from operations and accordingly no Profit and Loss Account was prepared. A Balance Sheet has been prepared for the period 20th July 2007 to 31st March 2008, being the First Financial Year of your company.

Your company has been incorporated with the objective of providing certain security services at the Hyderabad Rajiv Gandhi International Airport, including providing accommodation for the Central Industrial Security Force (CISF). Your company has undertaken the construction and maintenance of the office space and residential quarters for the CISF personnel and Phase I of the quarters and the office space have since been handed over to the CISF.

During the year, the authorised share capital of your company has been increased to Rs.13 crores comprising 1.3 crore equity shares of Rs.10/- each. Your Board of Directors has at its meeting held on April 07, 2008 made an allotment of 62,50,000 equity shares of Rs.10/- each to and in favour of GMR Hyderabad International Airport Limited.

Your company has also availed of term loan facility from State Bank of Hyderabad for amounts upto Rs.100 crores. As on March 31, 2008, an amount of Rs.40 crores had been drawn from SBH as part of the term loan.

Directors

Composition and size of the Board of Directors

The Board of your company presently comprises of the following Directors:

1. Mr. C Prasanna
2. Mr. T Srinagesh
3. Mr. Rajgopal Swami

Mr. C Prasanna, Mr. T Srinagesh and Mr. Rajgopal Swami were named as First Directors as per the Articles of Association of your company.

Mr. C Prasanna, Mr. T Srinagesh and Mr. Rajgopal Swami would hold office till the ensuing Annual General Meeting.

Notices under Section 257 of the Companies Act, 1956 have been received from the shareholders of the company signifying the candidature of Mr. C Prasanna, Mr. T Srinagesh and Mr. Rajgopal Swami for the office of Director of the company.

Directors' Responsibility Statement

Your Directors confirm that

1. in the preparation of the annual accounts for the financial period ended 31st March, 2008, the applicable accounting standards have been followed along with proper explanation relating to material departures.
2. the Directors have selected such accounting policies and applied them consistently and made judgments and estimates that are reasonable and prudent so as to give a true and fair view of the state of affairs of the Company at the end of the financial period ended 31st March, 2008
3. the Directors have taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of the Companies Act, 1956 for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities
4. the Directors have prepared the accounts for the financial period ended 31st March, 2008 on a 'going concern' basis.

Holding Company

Consequent upon GMR Hyderabad International Airport Limited subscribing to the Memorandum of Association, subscribing to 50000 equity shares of Rs.10/- each and the allotment of 6250000 equity shares on April 07, 2008, your company became a wholly owned subsidiary of GMR Hyderabad International Airport Limited.

Auditors

The Board of Directors of your company has appointed M/s. Price Waterhouse, Chartered Accountants, Hyderabad as the First Auditors of the company. M/s Price Waterhouse holds office till the ensuing Annual General Meeting. The proposal for appointment of M/s Price Waterhouse as the Statutory Auditors of the company will be placed before the shareholders at the ensuing Annual General Meeting. M/s Price Waterhouse has confirmed their eligibility and willingness to accept office, if re-appointed.

Conservation of Energy, Technology Absorption & Foreign Exchange Earnings & Outgo

The particulars as required under sub-section (1)(e) of Section 217 of the Companies Act, 1956, read with the Companies (Disclosure of particulars in the Report of the Board of Directors) Rules, 1988, are not applicable to your company. During the period under review, there were no foreign exchange earnings or outgo.

Particulars of Employees

Particulars required to be disclosed under Section 217(2A) of the Companies Act, 1956 read with Companies (Particulars of Employees) Rules, 1975, as amended, are not applicable for the company.

Acknowledgment

Your Directors take this opportunity to express their sincere thanks and gratitude to the State Bank of Hyderabad, Bangalore Branch and GMR Hyderabad International Airport Limited for their co-operation and support.

For and on behalf of the Board of Directors

Sd/-
C Prasanna
Director

Sd/-
Rajgopal Swami
Director

Place: Hyderabad
Date: May 14, 2008

AUDITORS' REPORT TO THE MEMBERS OF HYDERABAD AIRPORT SECURITY SERVICES LIMITED

1. We have audited the attached Balance Sheet of Hyderabad Airport Security Services Limited ("the Company") as at March 31, 2008, and Cash Flow Statement for the period ended on that date annexed thereto, which we have signed under reference to this report. No Profit and Loss Account has been prepared for the reason stated in Note II (2) of Schedule G. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.
2. We conducted our audit in accordance with the auditing standards generally accepted in India. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes, examining on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.
3. As required by the Companies (Auditor's Report) Order, 2003, as amended by the Companies (Auditor's Report) (Amendment) Order, 2004, issued by the Central Government of India in terms of sub-section (4A) of Section 227 of 'The Companies Act, 1956' of India (the 'Act') and on the basis of such checks of the books and records of the company as we considered appropriate and according to the information and explanations given to us, we give in the Annexure to this report, a statement on the matters specified in paragraphs 4 and 5 of the said Order.
4. Further to our comments in the Annexure referred to in paragraph 3 above, we report that:
 - (a) We have obtained all the information and explanations, which to the best of our knowledge and belief were necessary for the purposes of our audit;
 - (b) In our opinion, proper books of account as required by law have been kept by the company so far as appears from our examination of those books;
 - (c) The Balance Sheet and Cash Flow Statement dealt with by this report are in agreement with the books of account;
 - (d) In our opinion, the Balance Sheet and Cash Flow Statement dealt with by this report comply with the accounting standards referred to in sub-section (3C) of Section 211 of the Act;
 - (e) On the basis of written representations received from the directors, as on March 31, 2008 and taken on record by the Board of Directors, none of the directors is disqualified as on March 31, 2008 from being appointed as a director in terms of clause (g) of sub-section (1) of Section 274 of the Act;
 - (f) In our opinion and to the best of our information and according to the explanations given to us, the said financial statements together with the notes thereon and attached thereto give in the prescribed manner the information required by the Act and give a true and fair view in conformity with the accounting principles generally accepted in India:
 - (i) in the case of the Balance Sheet, of the state of affairs of the company as at March 31, 2008; and
 - (ii) in the case of the Cash Flow Statement, of the cash flows for the period ended on that date.

Sd/-

P. Rama Krishna

Partner

Membership No. 22795

For and on behalf of

Price Waterhouse

Chartered Accountants

Place: Hyderabad
Date: May 14, 2008

ANNEXURE TO AUDITORS' REPORT

[Referred to in paragraph 3 of the Auditors' Report of even date to the members of Hyderabad Airport Security Services Limited on the financial statements for the period ended March 31, 2008]

1. The company has neither granted nor taken any loans, secured or unsecured, to/from companies, firms or other parties covered in the register maintained under Section 301 of the Act.
2. In our opinion and according to the information and explanations given to us, having regard to the explanation that certain items purchased are of special nature for which suitable alternative sources do not exist for obtaining comparative quotations, there is an adequate internal control system commensurate with the size of the company and the nature of its business for the purchase of fixed assets. The activities of the Company did not involve purchase of inventory and sale of goods and services during the financial period. Further, on the basis of our examination of the books and records of the company, and according to the information and explanations given to us, we have neither come across nor have been informed of any continuing failure to correct major weaknesses in the aforesaid internal control system.
3. According to the information and explanations given to us, there have been no contracts or arrangements referred to in Section 301 of the Act during the period to be entered in the register required to be maintained under that Section. Accordingly, commenting on transactions made in pursuance of such contracts or arrangements does not arise.
4. The company has not accepted any deposits from the public within the meaning of Sections 58A and 58AA of the Act and the rules framed there under.
5. As the company is not listed on any stock exchange or the paid-up capital and reserves as at the commencement of the financial year did not exceed Rupees Fifty Lakhs or the average annual turnover for a period of three consecutive financial years immediately preceding the financial year did not exceed Rupees Five Crores, clause (vii) of paragraph 4 of the Companies (Auditor's Report) Order, 2003 is not applicable to the company for the current period.
6. (a) According to the information and explanations given to us and the records of the company examined by us, in our opinion, the company is generally regular in depositing the undisputed statutory dues including income-tax and other material statutory dues as applicable with the appropriate authorities. According to the information and explanation given to us and the records of the company examined by us, provident fund, investor education and protection fund, employees' state insurance, sales tax, wealth tax, service tax, customs duty, excise duty and cess are not applicable to the Company for the current period.
 (b) According to the information and explanations given to us and the records of the company examined by us, there are no dues of income-tax, which have not been deposited on account of any dispute. According to the information and explanations given to us and the records of the company examined by us, sales tax, wealth tax, service tax, customs duty, excise duty and cess are not applicable to the Company for the current period.
7. As the company is registered for a period less than five years, clause (x) of paragraph 4 of the Companies (Auditor's Report) Order, 2003, as amended by the Companies (Auditor's Report) (Amendment) Order, 2004, is not applicable to the company for the current period.
8. According to the records of the company examined by us and the information and explanation given to us, the company has not defaulted in repayment of dues to any bank as at the balance sheet date. The Company has not issued any debentures or borrowed from any financial institution during the period and there are no debentures outstanding as at the balance sheet date.
9. The company has not granted any loans and advances on the basis of security by way of pledge of shares, debentures and other securities.

10. The provisions of any special statute applicable to chit fund / nidhi / mutual benefit fund/societies are not applicable to the company.
11. In our opinion, the company is not a dealer or trader in shares, securities, debentures and other investments.
12. In our opinion and according to the information and explanations given to us, the company has not given any guarantee for loans taken by others from banks or financial institutions during the period.
13. In our opinion, and according to the information and explanations given to us, on an overall basis, the term loans have been applied for the purposes for which they were obtained.
14. On the basis of an overall examination of the balance sheet of the company, in our opinion and according to the information and explanations given to us, there are no funds raised on a short-term basis which have been used for long-term investment.
15. The company has not made any preferential allotment of shares to parties and companies covered in the register maintained under Section 301 of the Act during the period.
16. The company has not raised any money by public issue during the period.
17. During the course of our examination of the books and records of the company, carried out in accordance with the generally accepted auditing practices in India, and according to the information and explanations given to us, we have neither come across any instance of fraud on or by the company, noticed or reported during the period, nor have we been informed of such case by the management.
18. The other clauses (i), (ii), (iii)(b), (iii)(c), (iii)(d), (iii)(f), (iii)(g), (v)(b), (viii) and (xix) of paragraph 4 of the Companies (Auditor's Report) Order 2003, as amended by the Companies (Auditor's Report) (Amendment) Order, 2004, are not applicable in the case of the company for the current period, since in our opinion there is matter which arises to be reported in the aforesaid order.

Place: Hyderabad
Date: May 14, 2008

Sd/-
P. Rama Krishna
Partner
Membership No. 22795
For and on behalf of
Price Waterhouse
Chartered Accountants

HYDERABAD AIRPORT SECURITY SERVICES LIMITED
Balance Sheet as at March 31, 2008

(Amount in Rupees)

	Schedule Ref	As at March, 31, 2008
I. SOURCE OF FUNDS		
1. Shareholder's Funds		
Capital	A	5,00,000
2. Share application money pending allotment		6,25,00,000
3. Loan Funds	B	40,00,01,005
Secured Loans		
Total		46,30,01,005
II. APPLICATION OF FUNDS		
1. Capital Work in Progress		29,00,66,704
2. Expenditure during Construction Period pending allocation (Net)	C	1,01,82,421
3. Current Assets, Loans Advances		
a) Cash and Bank Balances	D	17,62,38,609
b) Loans and Advances	E	4,26,89,855
		21,89,28,464
Less: Current Liabilities & Provisions		
a) Current Liabilities	F	5,61,76,584
		5,61,76,584
Net Current Assets		16,27,51,880
Total		46,30,01,005
Statement on Significant Accounting Policies and Notes to the Accounts	G	

The Schedules referred to above form an integral part of the Balance Sheet

This is the Balance Sheet referred to in our report of even date

For and on behalf of the Board of Directors

Sd/-
P. Ramakrishna
 Partner
 Membership No. 22795
 For and on behalf of
Price Waterhouse
 Chartered Accountants

Sd/-
Rajgopal Swami
 Director

Sd/-
C. Prasanna
 Director

Place: Hyderabad
 Date: May 14, 2008

HYDERABAD AIRPORT SECURITY SERVICES LIMITED
Schedules forming part of Balance Sheet

(Amount in Rupees)

SCHEDULE - A - Capital	As at March 31, 2008
Authorised 1,30,00,000 Equity Shares of Rs.10 each	13,00,00,000
Issued, Subscribed and Paid-up 50,000 Equity Shares of Rs. 10/- each fully paid up (Above shares are held by Holding Company GMR Hyderabad International Airport Limited and its nominees)	5,00,000
	5,00,000
SCHEDULE - B - Secured Loans	As at March 31, 2008
Term Loans - Banks (Term loans are Secured by mortgage of Leasehold right, title, interest and benefit in respect of Leasehold Land and first charge on all movable and immovable assets, operating cash flows, book debts, receivables, intangibles and revenues, both present and future, as well as assignment of all right, title, interest, benefits, claims and demands available under the concession agreement and other project documents, security interest in the Trust and Retention Account, Debt Service Reserve Account)	40,00,01,005
	40,00,01,005
SCHEDULE - C - Expenditure during construction period, pending allocation (Net)	As at March 31, 2008
Rates and Taxes	11,88,420
Repairs and Maintenance - Others	62,058
Consultancy and other professional charges	48,65,944
Electricity & Water charges	23,68,910
Remuneration to Auditors	
Audit Fees	1,00,000
Interest on fixed loans	4,05,377
Finance Charges	11,25,200
Office Maintenance	34,136
Printing and Stationery	10,907
Misc expenses	149
Preliminary expenses	21,320
	1,01,82,421
SCHEDULE - D - Cash and Bank Balances	As at March 31, 2008
Cash on Hand	-
Balances with Scheduled Banks - in Current Accounts	17,62,38,609
	17,62,38,609
SCHEDULE - E - Loans and Advances	As at March 31, 2008
(Unsecured, considered good)	
Advances recoverable in cash or in kind or for value to be received	4,17,49,450
Deposits with Government Authorities	7,50,000
Balances with Customs, Excise, etc	1,90,404
	4,26,89,855

HYDERABAD AIRPORT SECURITY SERVICES LIMITED
Schedules forming part of Balance Sheet

SCHEDULE - F - Current Liabilities and Provisions	As at March 31, 2008
Current Liabilities	
Sundry Creditors	
- Due to other than micro, small and medium enterprises	5,61,63,853
Other Liabilities	12,731
*Note: Classification is on the basis of information available with the Company	
	5,61,76,584

SCHEDULE - G

BACKGROUND:

The Company was incorporated on 20th July, 2007 as a 100% subsidiary of GMR Hyderabad International Airport Limited. The main objective of the company is to carry on the business of providing certain security services at the new Hyderabad International Airport at Shamshabad.

I. SIGNIFICANT ACCOUNTING POLICIES

1. Accounting Assumptions:

These accounts have been prepared under the historical cost convention on the basis of a going concern, with revenues recognised and expenses accounted on their accrual and amounts determined as payable or receivable during the year, except those with significant uncertainties, and in accordance with the applicable Accounting Standards as issued by the Institute of Chartered Accountants of India and relevant provisions of the Companies Act, 1956.

2. Borrowing Costs:

Borrowing costs that are attributable to acquisition, construction or production of a qualifying asset are capitalized as a part of cost of such assets. All other borrowing costs are recognized as an expense in the year in which they are incurred.

II. NOTES ON ACCOUNTS

1. (a) Contingent Liabilities : Rs. Nil

(b) Capital Commitments:

Estimated Value of contracts remaining to be executed on capital account, not provided for (Net of Advances):
Rs.30,55,79,948/- (March 2007 - Rs. NIL)

2. The company has not commenced business operations. Consequently no Profit and Loss Account has been drawn up. All the expenditure incurred (net of income earned) during the construction stage are grouped and disclosed under expenditure during construction year, pending allocation (net) in Schedule C.

3. Details of transactions with Related Parties

A Name of related parties and description of relationship.

(i) Holding company	GMR Hyderabad International Airport Limited (GHIAL)
(ii) Holding company's Holding Company	GMR Infrastructure Limited (GIL)
(iii) Ultimate Holdings Company	GMR Holding Private Limited (GHPL)

B. Summary of Transactions with the above related parties is as follows:

(Amount in Rupees)

	Related Party Transactions	March 31, 2008
(i)	Share Capital allotted Holding Company	5,00,000
(ii)	Advances from Holding Company Holding Company	3,85,00,000

C. Out standing balances as at the year end:

	Particulars	March 31, 2008
(i)	Balance Payable: Holding Company	3,85,00,000

4. Auditors Remuneration :

Particulars	March 31, 2008
Audit Fee (Excluding Services Tax)	1,00,000
Total	1,00,000

- Additional Information pursuant to paragraphs 3, 4, 4-C and 4-D of part - II of Schedule VI to the Companies Act, 1956 to the extent either "Nil" or "Not Applicable" has not been furnished.
- The company was incorporated on 20th July, 2007. Accordingly, this Balance Sheet covers the period from 20th July, 2007 to 31st March, 2008, and previous year figures are not applicable to the company.

For and on behalf of the Board of Directors

Sd/-
P. Ramakrishna
Partner
Membership No. 22795
For and on behalf of
Price Waterhouse
Chartered Accountants

Sd/-
Rajgopal Swami
Director

Sd/-
C. Prasanna
Director

Place: Hyderabad
Date: May 14, 2008

HYDERABAD AIRPORT SECURITY SERVICES LIMITED

(Amount in Rupees)

CASH FLOW STATEMENT FOR THE PERIOD ENDED MARCH 31, 2008	2008
A. CASH FLOW FROM/(USED IN) OPERATING ACTIVITIES	
Net Profit Before Tax and Extra Ordinary items	-
Adjustment for :	
(Increase) / Decrease in Loans and Advances	(4,26,89,855)
Increase / (Decrease) in Current Liabilities and Provisions	5,61,76,584
NET CASH FLOW FROM OPERATING ACTIVITIES	1,34,86,729
B. CASH FLOW FROM / (USED IN) INVESTING ACTIVITIES	
Purchase of Fixed Assets and Change in Capital Work in Progress	(29,00,66,704)
Expenditure during Construction period, pending allocation (net)	(1,01,82,421)
NET CASH USED IN INVESTING ACTIVITIES	(30,02,49,125)
C. CASH FLOW FROM/ (USED IN) FINANCING ACTIVITIES	
Proceeds from issue of Share Capital	5,00,000
Proceeds from Secured Loans	40,00,01,005
Proceeds from Share application Money	6,25,00,000
NET CASH FLOW FROM FINANCING ACTIVITIES	46,30,01,005
NET INCREASE IN CASH AND CASH EQUIVALENTS DURING THE PERIOD	17,62,38,609
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD	-
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	17,62,38,609
Notes :	
1. The above cash flow statement has been prepared under the 'Indirect Method' as set out in the Accounting Standard - 3 on Cash Flow Statements issued by the Institute of Chartered Accountants of India.	
2. This being the first cash flow after incorporation, previous years figures are not applicable.	

For and on behalf of the Board of Directors

Sd/-
P. Ramakrishna
 Partner
 Membership No. 22795
 For and on behalf of
Price Waterhouse
 Chartered Accountants

Sd/-
Rajgopal Swami
 Director

Sd/-
C. Prasanna
 Director

Place: Hyderabad
 Date: May 14, 2008

HYDERABAD AIRPORT SECURITY SERVICES LIMITED
Balance Sheet Abstract and Company's General Business Profile

1	Registration Details				
	Registration No.	U74920AP2007PCL054862	State Code	01	
	Balance Sheet Date	March 31, 2008			
2	Capital Raised during the year (Amount in Rs. Thousands)				
	Public Issue	Nil	Rights Issue	Nil	
	Bonus Issue	Nil	Private Placement	Nil	
3	Position of Mobilisation and Development of Funds (Amount in Rs. Thousands)				
	Total Liabilities	4,63,001	Total assets	4,63,001	
	Sources Funds				
	Paid - Up Capital	500	Share Application Money	62,500	
	Reserves & Surplus	Nil	Unsecured Loans	Nil	
	Secured Loan	4,00,001	Grant from GOAP	Nil	
	Application of Funds				
	Net Fixed Assets	3,40,987	Investments	Nil	
	Net Current Assets	122,014	Misc. Expenditure	Nil	
	Accumulated Losses	Nil			
	4	Performance of company (Amount in Rs. Thousands)			
		Total Income	N.A	Total Expenditure	N.A
	5	Generic Names of Three Principal Products / Services of Company (as per monetary terms)			
		Item Code No. :	N.A		
Product Description		N.A			

For and on behalf of the Board of Directors

Sd/-
Rajgopal Swami
Director

Sd/-
C. Prasanna
Director

Place : Hyderabad
Date : May 14, 2008

HYDERABAD MENZIES AIR CARGO PRIVATE LIMITED

REPORT OF THE DIRECTORS' FOR THE PERIOD ENDED MARCH 31, 2008

To,
The Members,
Hyderabad Menzies Air Cargo Private Limited

Your Directors have pleasure in presenting the Second Annual Report and the Audited Accounts for the period ended March 31, 2008, together with the Auditors' Report thereon.

Your company has simultaneous to the opening of the Hyderabad Rajiv Gandhi International Airport on the 23rd March 2008, commenced commercial operations. Accordingly a Profit and Loss Account was prepared for the period ended March 31, 2008. As the previous (first) financial year of the company ended on June 30, 2007, the current financial year of the company would be from the period July 01, 2007 to March 31, 2008.

For the period ended March 31, 2008, your company has achieved a turnover (income from services) of Rs.46,23,677/-. For this period, your company registered a loss of Rs.1,79,20,148/- , after writing off an amount of Rs.84,97,952/- of project expenses not of capital nature.

Directors

Composition and size of the Board of Directors

The Board of your company presently comprises of the following Directors:

1. Mr. P S Nair
2. Mr. Rajgopal Swami
3. Mr. Paul Smith
4. Mr. Kamesh Peri
5. Mr. Martin Jones (Alternate Director to Mr. Paul Smith)

During the year, Mr. Rajgopal Swami was co-opted as an additional Director on the Board of the company with effect from December 21, 2007. Mr. Rajgopal Swami holds office of Director till the ensuing Annual General Meeting. Notice under Section 257 of the Companies Act, 1956 has been received from a shareholder of the company signifying the candidature of Mr. Rajgopal Swami for the office of Director of the company.

Mr. T Srinagesh ceased to be a Director, owing to his resignation with effect from December 21, 2007. The Board places on record its appreciation of the valuable contributions made by Mr. T Srinagesh during his tenure as Director and Chairman of the company.

Mr. Kamesh Peri, Director retires at the ensuing Annual General and being eligible offers himself for reappointment.

Directors' Responsibility Statement

Your Directors confirm that

1. in the preparation of the annual accounts for the financial period ended 31st March, 2008, the applicable accounting standards have been followed along with proper explanation relating to material departures.
2. the Directors have selected such accounting policies and applied them consistently and made judgments and estimates that are reasonable and prudent so as to give a true and fair view of the state of affairs of the Company at the end of the financial period ended 31st March, 2008
3. the Directors have taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of the Companies Act, 1956 for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities.
4. the Directors have prepared the accounts for the financial period ended 31st March, 2008 on a 'going concern' basis.

Holding Company

Pursuant to the Joint Venture Agreement dated April 28, 2006 and the various allotment of equity shares made by the company, GMR Hyderabad International Airport Limited is the Holding Company of the company as defined under Section 4 of the Companies Act, 1956.

Auditors

The Auditors, M/s. Price Waterhouse, Chartered Accountants, Hyderabad, retire at the ensuing Annual General meeting and have confirmed their eligibility and willingness to accept office, if re-appointed.

Conservation of Energy, Technology Absorption & Foreign Exchange Earnings & Outgo

The particulars as required under sub-section (1)(e) of Section 217 of the Companies Act, 1956, read with the Companies (Disclosure of particulars in the Report of the Board of Directors) Rules, 1988, are set out as an Annexure to this report.

Particulars of Employees

Particulars required under Section 217(2A) of the Companies Act, 1956 read with Companies (Particulars of Employees) Rules, 1975, as amended, are set out in the Annexure to this report.

Acknowledgment

Your Directors take this opportunity to express their sincere thanks and gratitude to GMR Hyderabad International Airport Limited, Menzies Aviation Plc, for their co-operation and support.

Your Directors place on record their sincere appreciation of the contributions made by the employees at all levels through their hard work, dedication, solidarity and support.

For and on behalf of the Board of Directors

Sd/-
P S Nair
Chairman

Sd/-
Rajgopal Swami
Director

Place: Hyderabad
Date: May 14, 2008

Auditors' Report to the Members of

HYDERABAD MENZIES AIR CARGO PRIVATE LIMITED

1. We have audited the attached Balance Sheet of Hyderabad Menzies Air Cargo Private Limited (the "Company") as at March 31, 2008, and the related Profit and Loss Account and Cash flow statement for the period ended on that date annexed thereto, which we have signed under reference to this report. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.
2. We conducted our audit in accordance with auditing standards generally accepted in India. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.
3. As required by the Companies (Auditors' Report) Order, 2003 as amended by the Companies (Auditor's Report) (Amendment) Order, 2004, issued by the Central Government of India in terms of sub-section (4A) of Section 227 of 'The Companies Act, 1956' of India (the "Act") and on the basis of such checks of the books and records of the company as we considered appropriate and according to the information and explanations given to us, we give in the Annexure a statement on the matters specified in paragraphs 4 and 5 of the said Order.
4. Further to our comments in the Annexure referred to in paragraph 3 above, we report that:
 - (a) We have obtained all the information and explanations, which to the best of our knowledge and belief were necessary for the purposes of our audit;
 - (b) In our opinion, proper books of account as required by law have been kept by the Company so far as appears from our examination of those books;
 - (c) The Balance Sheet, Profit and Loss Account and Cash Flow Statement dealt with by this report are in agreement with the books of account;
 - (d) In our opinion, the Balance Sheet, Profit and Loss Account and Cash Flow Statement dealt with by this report comply with the accounting standards referred to in sub-section (3C) of section 211 of the Act;
 - (e) On the basis of written representations received from the Directors, as on March 31, 2008 and taken on record by the Board of Directors, none of the directors is disqualified as on March 31, 2008 from being appointed as a Director in terms of clause (g) of sub-section (1) of section 274 of the Act;
 - (f) In our opinion and to the best of our information and according to the explanations given to us, the said financial statements together with the notes thereon and attached thereto give in the prescribed manner the information required by the Act and give a true and fair view in conformity with the accounting principles generally accepted in India:
 - (i) in the case of the Balance Sheet, of the state of affairs of the Company as at March 31, 2008;
 - (ii) in the case of the Profit and Loss Account, of the loss for the period ended on that date; and
 - (iii) in the case of the Cash Flow Statement, of the cash flows for the period ended on that date.

Place: Hyderabad
Date: May 14, 2008

Sd/-
P. Ramakrishna, Partner
Membership No. 22795
For and on behalf of
Price Waterhouse
Chartered Accountants

ANNEXURE TO AUDITORS' REPORT

[Referred to in Paragraph 3 of the Report of the Auditors' Report of even date to the Members of Hyderabad Menzies Air Cargo Private Limited on the financial statements for the period ended March 31, 2008]:

1. (a) The Company is maintaining proper records to show full particulars including quantitative details and situation of fixed assets.
(b) The fixed assets of the company have been physically verified by the management according to a phased programme designed to cover all the items over a period of three years, which in our opinion, is reasonable having regard to the size of the company and the nature of its assets. Pursuant to the programme, a portion of the fixed assets has been verified by the management during the period and no material discrepancies between the book records and the physical inventory have been noticed.
(c) In our opinion, and according to the information and explanations given to us, a substantial part of fixed assets has not been disposed of by the Company during the period.
2. The Company has neither granted nor taken any loans, secured or unsecured, to/from companies, firms, or other parties covered in the Register maintained under Section 301 of the Act.
3. In our opinion and according to the information and explanations given to us, having regard to the explanation that certain items purchased are of special nature for which suitable alternative sources do not exist for obtaining comparative quotations, there is an adequate internal control system commensurate with the size of the Company and the nature of its business for the purchase of fixed assets and for the sale of services. The activities of the Company do not involve purchase of inventory and sale of goods, during the financial period. Further, on the basis of our examination of the books and records of the Company, and according to the information and explanations given to us, we have neither come across nor have been informed of any continuing failure to correct major weaknesses in the aforesaid internal control system.
4. According to the information and explanations given to us, there have been no contracts or arrangements referred to in section 301 of the Act during the period to be entered in the register required to be maintained under that section. Accordingly, commenting on transactions made in pursuance of such contracts or arrangements does not arise.
5. The Company has not accepted any deposits from the public within the meaning of Sections 58A and 58AA of the Act and the rules framed there under.
6. As the Company is not listed on any stock exchange or the paid up capital and reserves as at the commencement of the financial period did not exceed Rupees Fifty Lakhs or the average annual turnover for a period of three consecutive financial years immediately preceding the financial year did not exceed Rupees Five Crores, clause (vii) of paragraph 4 of the Companies (Auditor's Report) Order 2003, as amended by the Companies (Auditor's Report) (Amendment) Order, 2004, is not applicable to the company for the current period.
7. (a) According to the information and explanations given to us and the records of the company examined by us, in our opinion, the Company is generally regular in depositing the undisputed statutory dues including provident fund, employees' state insurance, income tax, service tax, customs duty and other material statutory dues as applicable with the appropriate authorities. According to the information and explanation given to us and the records of the company examined by us, investor education and protection fund, sales tax, wealth tax, excise duty and cess are not applicable for the company during the period under audit.

- (b) According to the information and explanations given to us and the records of the company examined by us, there are no dues of income tax and service tax which have not been deposited on account of any dispute. According to the information and explanations given to us and records of the company examined by us, sales tax, wealth tax, customs duty, excise duty and cess are not applicable for the company during the period under audit.
8. As the Company is registered for a period less than five years, clause (x) of paragraph 4 of the Companies (Auditor's Report) Order 2003, as amended by the Companies (Auditor's Report) (Amendment) Order, 2004, is not applicable to the Company for the current period.
 9. The company has not granted any loans and advances on the basis of security by way of pledge of shares, debentures and other securities.
 10. The provisions of any special statute applicable to chit fund/ nidhi/ mutual benefit fund/ societies are not applicable to the company.
 11. In our opinion, the Company is not a dealer or trader in shares, securities, debentures and other investments.
 12. In our opinion, and according to the information and explanations given to us, the company has not given any guarantee for loans taken by others from banks or financial institutions during the period.
 13. The Company has not obtained any term loans.
 14. On the basis of an overall examination of the balance sheet of the Company, in our opinion and according to the information and explanations given to us, there are no funds raised on a short term basis which have been used for long term investment.
 15. The Company has not made any preferential allotment of shares to parties and companies covered in the Register maintained under Section 301 of the Act during the period.
 16. The Company has not raised any money by public issue during the period.
 17. During the course of our examination of the books and records of the company, carried out in accordance with the generally accepted auditing practices in India, and according to the information and explanations given to us, we have neither come across any instance of fraud on or by the Company, noticed or reported during the period, nor have we been informed of such case by the management.

The other Clauses (ii), (iii) (b), (c), (d), (f) and (g), (viii), (xi) and (xix) of paragraph 4 of the Companies (Auditor's Report) Order 2003, as amended by the Companies (Auditor's Report) (Amendment) Order, 2004, are not applicable in the case of the Company for the current period, since in our opinion there is no matter which arises to be reported upon under the aforesaid order.

Place: Hyderabad
Date: May 14, 2008

Sd/-
P. RamaKrishna
Partner
Membership No. 22795
For and on behalf of
Price Waterhouse
Chartered Accountants

HYDERABAD MENZIES AIR CARGO PRIVATE LIMITED

Balance Sheet as at March 31, 2008

(Amount in Rupees)

	Sch. No.	As at March 31, 2008	As at June 30, 2007
I. SOURCES OF FUNDS			
1. Shareholders' Funds			
Capital	A	10,200,000	1,000,000
Share Application Money pending allotment		192,944,369	-
2. Loan Funds			
Unsecured Loans	B	70,384,040	22,595,753
Total		273,528,409	23,595,753
II APPLICATION OF FUNDS			
1. Fixed Assets			
(a) Gross Block	C	184,740,365	593,730
(b) Less Depreciation		2,391,193	24,318
(c) Net Block		182,349,172	569,412
(d) Capital Work-in-Progress (Including Capital Advances)		2,448,129	6,004,349
		184,797,301	6,573,761
2. Expenditure during Construction Period, pending allocation (Net)			
	D	-	3,925,243
3. Current Assets, Loans and Advances			
(a) Sundry Debtors	E	2,917,192	-
(b) Cash and Bank Balances	F	143,801,928	975,954
(c) Loans and Advances	G	25,939,118	15,001,000
(d) Other Current Assets	H	98,630	91,431
		172,756,868	16,068,385
Less : Current Liabilities and Provisions			
(a) Current Liabilities	I	101,385,319	2,944,936
(b) Provisions		560,589	26,700
		101,945,908	2,971,636
Net Current Assets		70,810,960	13,096,749
4. Profit and Loss Account			
		17,920,148	-
Total		273,528,409	23,595,753
Significant Accounting Policies and Notes to Accounts			
	O		

The Schedules referred to above form an integral part of the Balance Sheet.

This is the Balance sheet referred to in our report of even date

Sd/-
P. Ramakrishna
Partner
Membership no. 22795
For and on behalf of
Price Waterhouse
Chartered Accountants

Sd/-
P S Nair
Chairman

For and on behalf of the Board
Sd/-
Kamesh Peri
Director

Place: Hyderabad
Date: May 14, 2008

HYDERABAD MENZIES AIR CARGO PRIVATE LIMITED
Profit and Loss Account for the period ended March 31, 2008

(Amount in Rupees)

	Sch Ref	For the period ended March 31, 2008
INCOME		
Income from Cargo Operations	J	4,623,677
Other Income		631,703
Total		5,255,380
EXPENDITURE		
Operating Expenditure	K	3,533,966
Personnel Cost	L	4,602,137
Other Administrative Expenditure	M	4,199,375
Interest and Finance Charges	N	10,594
Project Expenses Written off		8,497,952
Preliminary Expenses		27,655
Depreciation		2,228,373
Total		23,100,052
Profit before Taxation		(17,844,672)
Provision for Taxation		-
Current Tax		-
Deferred Tax		75,476
Fringe benefit Tax		-
Profit after Taxation		(17,920,148)
Balance carried over to Balance Sheet		(17,920,148)
Earnings per Share-for the Period (not-annualised) (Basic and diluted)		(48.30)
Statement on significant accounting policies and nodes to the Accounts	O	

The Schedules referred to above form an integral part of the Profit and Loss Account

This is the Profit and Loss Account referred to in our Report of even date

On behalf of the Board of Directors

Sd/-
P. Ramakrishna
Partner
Membership no. 22795
For and on behalf of
Price Waterhouse
Chartered Accountants

Sd/-
P S Nair
Chairman

Sd/-
Kamesh Peri
Director

Place: Hyderabad
Date: May 14, 2008

HYDERABAD MENZIES AIR CARGO PRIVATE LIMITED

Schedules forming part of Balance Sheet

(Amount in Rupees)

SCHEDULE - A - Capital	As at March 31, 2008	As at June 30, 2007
Authorised 10,000,000 Equity Shares of Rs. 10/- each	100,000,000	1,000,000
Issued, Subscribed and Paid-up 1,020,000 Equity Shares of Rs. 10/- each fully paid up (Out of above 520,200, (2007 - 51,000) Equity shares are held by GMR Hyderabad International Airport Limited)	10,200,000	1,000,000
	10,200,000	1,000,000
SCHEDULE - B - Unsecured Loans	As at March 31, 2008	As at June 30, 2007
Short Term Inter-Corporate Deposits	68,642,740	22,595,753
Deposits from Concessionaires	741,300	-
	70,384,040	22,595,753

HYDERABAD MENZIES AIR CARGO PRIVATE LIMITED

Schedules forming part of Balance sheet

SCHEDULE - C Fixed Assets

(Amount in Rupees)

Description	Gross Block			Depreciation				Net Block		
	As at July 01, 2007	Additions	Deletions	As at March 31, 2008	As at July 01, 2007	Capitalised**	For the Period	On	As at March 31, 2008	As at June 30, 2007
Improvements to Leasehold Building	-	9,69,267	-	969,267	-	-	424	-	424	-
Plant and Machinery	-	12,48,71,549	-	124,871,549	-	-	5,03,061	-	503,061	-
Furniture and Fixtures	-	3,643,652	-	3,643,652	-	29,405	1,168,840	-	1,198,245	-
Office Equipment (Including Computers)	593,730	39,158,273	-	39,752,003	24,318	109,097	468,150	-	601,565	569,412
Vehicles (Including Forklifts)	-	15,503,894	-	15,503,894	-	-	87,898	-	87,898	-
Total	593,730	184,146,635	-	184,740,365	24,318	138,502	2,228,373	-	2,391,193	569,412
Previous Period	-	593,730	-	593,730	-	24,318	-	-	24,318	-
Capital work in progress (Including capital advances)										2,448,129

Note: **Depreciation upto February 29, 2008 capitalised as part of "Expenditure incurred during the construction period".

HYDERABAD MENZIES AIR CARGO PRIVATE LIMITED
Schedules forming part of Balance Sheet (Amount in Rupees)

SCHEDULE - D - Expenditure during construction period, pending allocation (Net)	Upto and as at March 31, 2008	Upto and as at June 30, 2007
Salaries, Allowances and other benefits	14,425,524	2,347,932
Staff Welfare	3,070,667	-
Rent	209,243	-
Rates and Taxes	792,775	6,848
Repairs and Maintenance	190,716	-
Insurance	462,270	3,964
Printing and Stationery	240,151	2,656
Consultancy and other professional charges	2,814,151	12,362
Remuneration to Auditors - Audit Fees	-	100,000
Travelling and Conveyance	4,096,036	564,571
Communication Expenses	148,257	35,721
Recruitment Expenses	-	777,849
Fuel	11,825	-
Advertisement	20,000	-
Bank / other finance charges	32,397	2,187
Fringe Benefit Tax	150,747	26,700
Depreciation	162,820	24,318
Loss / (Gain) on Exchange Fluctuations (New)	1,229,666	(11,949)
Miscellaneous Expenses	136,291	4,429
Preliminary Expenses	27,655	27,655
	28,221,191	3,925,243
Less: Interest income	79,185	-
	28,142,006	3,925,243
Less: Project Expenses written off	8,497,952	-
	19,644,054	3,925,243
Less : Preliminary Expenses written off	27,655	-
	19,616,399	3,925,243
Less : Allocated to Capital Assets	19,616,399	-
	-	3,925,243
SCHEDULE - E - Sundry Debtors	Upto and as at March 31, 2008	Upto and as at June 30, 2007
(Unsecured, considered good)		
Debts outstanding for a period exceeding six months	-	-
Other Debts	2,917,192	-
	2,917,192	-
SCHEDULE - F - Cash and Bank Balances	Upto and as at March 31, 2008	Upto and as at June 30, 2007
Cash on Hand Balances with Scheduled Banks	15,365	1,289
- in Current Accounts	23,786,563	974,665
- in Fixed Deposits	120,000,000	-
	143,801,928	975,954
SCHEDULE G - Loans and Advances	As at March 31, 2008	As at June 30, 2007
(Unsecured, considered good)		
Advances recoverable in cash or in kind or for value to be received"	746,031	-
Balances with Excise Authorities	10,188,087	-
Other Deposits	15,005,000	15,001,000
(Includes Deposits with Holding Company Rs. 15,000,000 (2007-Rs. 15,000,000))	25,939,116	15,001,000

HYDERABAD MENZIES AIR CARGO PRIVATE LIMITED
Schedules forming part of Balance Sheet

(Amount in Rupees)

SCHEDULE H - Other Current Assets	As at March 31, 2008	As at June 30, 2007
(Unsecured, considered good)Interest Accrued but not due	98,630	91,431
	98,630	91431
SCHEDULE I - Current Liabilities and Provisions	As at March 31, 2008	As at June 30, 2007
Current Liabilities		
Sundry Creditors		
- Dues to Micro Enterprises and Small Enterprises**	97,909,242	2,944,936
- Dues to other than Micro Enterprises and Small enterprises		
Advance from Customers	2,670,275	--
Other Liabilities	805,802	
	101,385,319	2,944,936
Note : ** - Based on the details available with the Company and Information furnished by the Suppliers		
Provisions		
Provision for Fringe Benefit Tax (net of advance taxes)	35,248	26,700
Provision for Employee benefits	525,341	
	560,589	26,700
	101,945,908	2,971,636

Schedules annexed to and forming part of Profit and Loss Account

(Amount in Rupees)

SCHEDULE - J - OTHER INCOME	For the period ended March 31, 2008
Interest on deposits - (Gross) (Tax deducted at Source - Rs. 90,119)	456,164
Income from Concessionaires	138,039
Misc Receipts	37,500
	631,703
SCHEDULE - K - OPERATING EXPENDITURE	For the period ended March 31, 2008
Concessionaire Fee	801,024
Concessionaire Rent	1,397,517
Operating Expenditure	1,335,425
	3,533,966
SCHEDULE - L - PERSONNEL COST	For the period ended March 31, 2008
Salaries, allowances and other benefits	4,279,676
Staff Welfare	322,461
	4,602,137

(Amount in Rupees)

SCHEDULE - M - OTHER ADMINISTRATIVE EXPENDITURE	For the period ended March 31, 2008
Power and Fuel	535,838
Repairs and Maintenance	304,483
Insurance	155,090
Travelling and Conveyance Expenses	1,112,161
Professional and Consultancy charges	95,808
Printing and Stationery	77,913
Loss/(Gain) on Exchange Fluctuations (Net)	806,938
Communication Expenses	276,463
Security Charges	477,626
Auditors' Remuneration	
- Audit Fee	250,000
Miscellaneous Expenses	107,055
	4,199,375

SCHEDULE - N - INTEREST AND FINANCE CHARGES	For the period ended March 31, 2008
Bank Charges	10,594
	10,594

Schedule O

Significant Accounting Policies and Notes to Accounts

Background:

Menzies Aviation Pic, UK and GMR Hyderabad International Airport Limited (GHIAL) have entered into a joint venture for cargo handling at the Rajiv Gandhi International Airport at Shamshabad, Hyderabad, Rangareddy District. The Company was incorporated on February 22, 2006 as a Special purpose Vehicle for implementing the Cargo Handling Project. The Company has installed state of art Cargo Handling Facility and ready for commencement of commercial operations effective March 01, 2008 Commercial Operations commenced on March 23, 2008.

1. Significant Accounting Policies

(i) Accounting Assumptions:

These accounts have been prepared under the historical cost convention on the basis of a going concern, with revenues recognized and expenses accounted on their accrual and amounts determined as payable or receivable during the year, except those with significant uncertainties and is in accordance with the applicable Accounting Standards as issued by the institute of Chartered accountants of India and provisions fo the companies Act, 1956.

(ii) Revenue Recognition

Revenue from cargo is recognised at the point of departure for exports and at the point that the goods are ready for delivery for imports

(iii) Fixed Assets and Depreciation:

Fixed Assets are state at cost of acquisition which is inclusive of inward freight, non refundable duties and taxes and incidentals related to acquisitions. Assets under installation or under construction as at balance sheet date are shown as Capital Work in Progress.

Depreciation is provided pro rata to the period of use on the written down value method at the rates specified under schedule XIV of the Companies Act., 1956. Fixed assets having an original cost of less than Rs. 5,000 individually are fully depreciated in the year of purchase.

All the fixed assets are assessed for any indication of impairment, the end of each financial year. On such indication, the impairment loss, being the excess of carrying value over the recoverable value of the assets, is charged to the profit and loss account in the respective financial years. The impairment loss recognised in the prior years is reversed in cases where the removable value exceeds the carrying value, upon re-assessment in the subsequent years.

(iv) Foreign Currency Transactions:

All foreign currency transactions are accounted at the exchanged rates prevailing on the date of transactions. Current assets and current liabilities are translated at the exchange rate prevailing on the balance sheet date and the resultant gain / loss is recognized in the financial statements. The contingent liability denominated in the foreign currency at the balance sheet date is disclosed by using the closing rate.

(v) Earning per Share

The earnings considered in ascertaining the Company's Earnings per share (EPS) comprise the net profit/(loss) after tax. The number of shares used in computing Basic EPS is the weighted average number of shares outstanding during the year. The number of shares used in computing diluted EPS comprises of weighted average shares considered for deriving Basic EPS and also the weighted average number of equity shares which could have been issued on the conversion of all dilutive potential equity share where applicable. Dilutive potential equity shares are deemed to have been converted as of the beginning of the year, unless they have issued at a later date.

(vi) Taxes on income

Tax expenses comprises both current and deferred taxes. Provision for current tax is made based on the applicable tax rates and tax laws with respect to the year. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between financial statements carrying amount of existing assets and liabilities and their respective tax bases and operating loss carry forwards. Deferred tax assets and liabilities are measured using the tax rates and tax laws that have been enacted or substantively enacted by the balance sheet date. The effect of deferred tax assets and liabilities due to change in tax rates is recognized in the profit and loss account in the year of change.

2. Notes to Accounts

a. Contingent Liabilities and Commitments

- (i) Estimated amount of contracts remaining to be executed on capital accounts not provided for, net of advances is Rs. Nil (2007 - Rs. 61,478,064)
- (ii) Claims against the Company not acknowledged as debt. Rs. Nil
- b. The company was ready for commercial operations on March 01, 2008. Accordingly. Profit and Loss Account has been prepared for the period from March 01, 2008 to March 31, 2008. As this being the first period of operations after commercial operation, previous period figures have not been furnished for the Profit and Loss Account.

e. Employee Benefits

1. Defined contribution plans

In respect of the defined contribution plans, an amount of Rs. 549,482 (2007-Rs. Nil) has been recognized in the Profit and Loss Account during the period.

HYDERABAD MENZIES AIR CARGO PRIVATE LIMITED

(Amount in Rupees)

2. Defined benefit plans

The following table sets forth the status of the Gratuity Plan and Leave Encasement Plan of the Company and the amounts recognized in the Balance Sheet and in the Profit and Loss Accounts.

Particulars	Gratuity Plan	Leave Encasement Plan
Projected benefit obligation at the beginning of the period		
Current service cost	342,757	375,159
Interest cost	-	-
Actuarial loss / (gain)	-	(104,898)
Benefits paid	-	(87,677)
Short Term Leave Encasement Liability		347,428
Projected benefit obligation at the end of the Period (As at March 31, 2008)	342,757	530,112
Amounts recognized in the balance sheet	342,757	530,112
Projected benefit obligation at the end of the period		
Fair value of plan assets at end of the period		
Funded status of the plans - (asset)/liability	-	-
Liability recognized in the balance sheet	342,757	530,112
Cost for the period		
Current service cost	342,757	375,159
Interest cost	-	-
Expected return on plan assets	-	-
Net actuarial (gain)/loss recognised in the period	-	(104,898)
Benefits paid		(87,677)
Short Term Leave Encasement Liability		347,428
Net cost	342,757	530,112
Investment details of the plan assets		
State and Central Securities	-	-
Bonds	-	-
Special Deposits	-	-
Actual Return on Plan Assets*	-	-
Assumptions		
Discount rate	8%	8%
Estimated rate of return on plan assets	-	-
Expected rate of salary increases	7.5%	7.5%

d. Related Party Transactions
(i) Details of Related Parties

Ultimate Holding Company	GMR Holdings Private Limited (GHPL)
Holding Company's Holding Company	GMR Infrastructure Limited
Holding Company	GMR Hyderabad International Airport Limited
Venturers having Significant Influence	Menzies Aviation cargo (Hyderabad) Limited (Mauritius) Menzies Aviation Plc (UK), Menzies Aviation India Private Limited

(ii) Details of transactions with the above related parties are as follows: (Amount in Rupees)

Particulars	As at June 30, 2007	As at March 31, 2008
Equity Share Alloted		
- Holding Company	4,692,000	510,000
- Venturers having Significant Influence		
Menzies Aviation cargo (Hyderabad) Limited	4,508,000	-
Manzies Aviation Pic (UK)	-	490,000
Equity Share Application Money Received		
- Holding Company	10,682,000	-
- Venturers having Significant Influence		
Menzies Aviation cargo (Hyderabad) Limited	2,190,000	-
Manzies Aviation Pic (UK)	8,74,819	-
Preference Share Application Money Received		
- Venturers having Significant Influence		
Menzies Aviation cargo (Hyderabad) Limited	180,530,550	-
Concessionaire Rent		
- Holding Company	1,397,517	-
Concessionaire Fee		
- Holding Company	801,024	-
Management Fee		
- Venturers having Significant Influence	267,008	-
Menzies Aviation PLC		
Unsecured Loans		
- Venturers having Significant Influence		
Menzies Aviation India Private Limited	69,642,740	22,595,753

iii Period End Balances

(Amount in Rupees)

Particulars	As at March 31, 2008	As at June 30, 2007
- Ventures having Significant influence		
Manzies Aviation India Private Limited	69,642,740	22,595,753
Manzies Aviation PLC (Uk0)	6,951,803	-
Equity Shares Application Money pending allotment		
- Holding Company	5,990,000	-
- Venturers having Significant Influence	-	-
Menzies Aviation Cargo (Hyderabad) Limited	6,423,814	
Preferential Share Application Money Pending allotment		
- Venturers having Significant Influence		
Manzies Aviation Cargo (Hyderabad) Limited (Mauritius)	118,350,000	-
Manzies Aviation PLC (UK)	62,180,550	-

e. Lease obligations as lessee (Leases payments)

Leases payments made under cancellable operating amounting to Rs. 1,397,517(2007-Rs. Nil) have been recognised as an expenses in the Profit and Loss account.

f. Lease obligations as lessor (Lease receivables)

Lease receipts under cancellable operating leases amounting to Rs. 138,039 (2007-Rs. Nil) have been recognized as rental income in the Profit and Loss account.

g. Earning Per Share (EPS)

(Amount in Rupees)

Particulars	As at March 31, 2008	As at June 30, 2007
Net Profit after taxes for the period (Rs.)	(17,920,148)	-
Weighted average number of Equity Shares of Rs. 10 each outstanding during the period (Used for calculation of Basic Earnings Per Share)	370,982	
EPS-Basis and Diluted (Rs.)	(48.30)	

h. Deferred tax

Deferred tax liability as per the requirement of AS-22, Accounting for taxes in income, issued by the Institute of Chartered Accountants of India has not been provided during the year as the timing differences that originate as at the Balance Sheet date will be reversing during the tax holiday period of the Company under the provisions of Section-80 IA of the Income Tax Act, 1961.

i. Company has not paid any interest or any interest payable is outstanding to Micro, Small or Medium Enterprises (under the provisions of Section 16 of the Micro, Small and Medium Enterprises Development Act, 2006) during the period ending March 31, 2008.

j. Auditors Remuneration

(Amount in Rupees)

Particulars	As at March 31, 2008	As at June 30, 2007
Audit Fee (excluding Service Tax)	250,000	100,000
Total	250,000	100,000

k. Expenditure in Foreign Currency

(Amount in Rupees)

Particulars	As at March 31, 2008	As at June 30, 2007
Traveling	225,998	-
Consultancy	1,823,725	-
Others	47,564	-
Total	2,097,287	-

l. Value of Imports

(Amount in Rupees)

Particulars	As at March 31, 2008	As at June 30, 2007
Capital goods	38,125,421	-
Total	38,125,421	-

m. Additional Information pursuant to paragraphs 3, 4, 4-C and 4-D of part-II of Schedule VI to the Companies Act, 1956 to the extent either "Nil" or "Not Applicable" has not been furnished.

- n. Pursuant to commencement of commercial Operations the company has changed its financial year to align the same with the parent company's financial year. Accordingly, these accounts have been prepared for the nine months period ended on March 31, 2008. Consequently, figures for the period ended March 31, 2008 are not readily comparable with the figures for the previous year of 16 months ended on June 30, 2007. However, certain comparative figures for the previous year have been reclassified and regrouped to conform to current period presentation.

For and on behalf of the Board

Sd/-

P. Ramakrishna
Partner
Membership no. 22795
For and on behalf of
Price Waterhouse
Chartered Accountants

Place: Hyderabad
Date: May 14, 2008

Sd/-

P S Nair
Chairman

Sd/-

Kamesh Peri
Director

HYDERABAD MENZIES AIR CARGO PRIVATE LIMITED

(Amount in Rupees)

CASH FLOW STATEMENT	For the period from Jul 01, 2007 to Mar 31, 2008	For the period from Feb 22, 2006 to Jun 30, 2007
A. CASH FLOW FROM / (USED IN) OPERATING ACTIVITIES		
Net Profit Before Tax and Extra Ordinary items	(17,844,672)	-
Adjustment for :		
Loss on Foreign Exchange Fluctuations	806,938	-
Depreciation and Amortisation	2,228,373	24,318
Interest Income	(456,164)	-
	(15,265,525)	24,318
OPERATING PROFIT BEFORE WORKING CAPITAL CHANGES		
Adjustment for Working Capital Changes		
(Increase) / Decrease in Loans and Advances	(10,938,118)	(15,092,431)
(Increase) / Decrease in Sundry Debtors	(2,917,192)	
Increase / (Decrease) in Current Liabilities and Provisions	98,282,833	2,971,636
Cash Generated from Operations	69,161,998	(12,096,477)
Income taxes paid	(190,975)	
NET CASH FLOW FROM OPERATING ACTIVITIES	68,971,023	(12,096,477)
B. CASH FLOW FROM / (USED IN) INVESTING ACTIVITIES		
Purchase of Fixed Assets and Change in Capital Work in Progress	(176,526,670)	(6,598,079)
Expenditure during Construction period, pending allocation (net)	-	(3,925,243)
Interest received	448,965	-
NET CASH USED IN INVESTING ACTIVITIES	(176,077,705)	(10,523,322)
C. CASH FLOW FROM / (USED IN) FINANCING ACTIVITIES		
Proceeds from Issue of Share Capital	202,144,369	1,000,000
Deposits from Concessionaires	741,300	-
Proceeds from Inter-Corporate Deposits	47,046,987	22,595,753
NET CASH FLOW FROM FINANCING ACTIVITIES	249,932,656	23,595,753
NET INCREASE IN CASH AND EQUIVALENTS	142,825,974	975,954
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD	975,954	-
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	143,801,928	975,954
Notes:		
1. The above cash flow statement has been prepared under the 'Indirect Method' as set out in the Accounting Standard - 3 on Cash Flow Statements issued by the Institute of Chartered Accountants of India.		
2. Previous year's figures have been regrouped, recast and reclassified to conform to current year's presentation.		

This is the Cash Flow Statement referred to in our report of even date.

For and on behalf of the Board

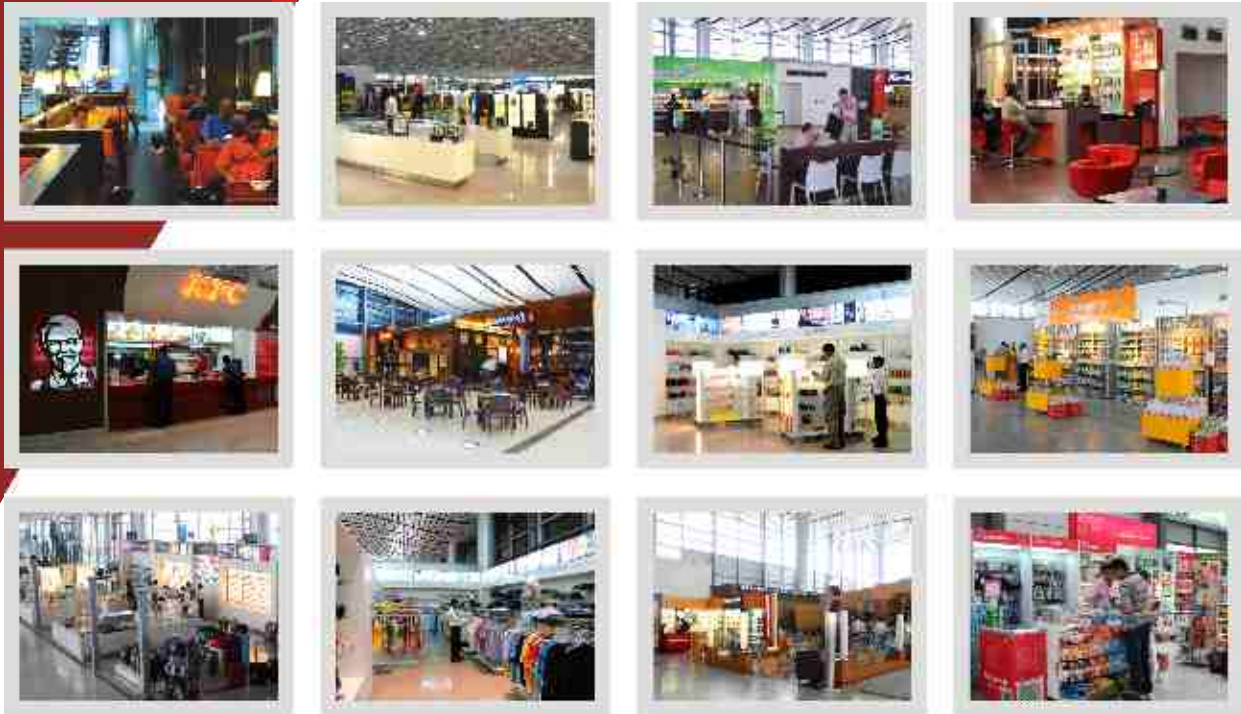
Sd/-
P. Ramakrishna
Partner
Membership no. 22795
For and on behalf of
Price Waterhouse
Chartered Accountants

Sd/-
P S Nair
Chairman

Sd/-
Kamesh Peri
Director

Place : Hyderabad
Date : May 14, 2008





GMR Hyderabad International Airport Limited

Regd. Office:

8-2-120/112/88 & 89, III Floor, Aparna Crest, Road No. 2,

Banjara Hills, Hyderabad - 500 034, A.P., India

Tel: +91-40-6672 3333, Fax: +91-40-6646 2626

www.hyderabad.aero

CGF as Aero 1 for Aero, 0 for Non Aero

Interest Income as No 1 for Yes, 0 for No

REGULATORY BUILDING BLOCKS-for the period (23rd Mar 2008-31st Mar 2008)		2008
From		23-Mar-08
To		31-Mar-08
Regulatory Building Blocks		
Return on Capital Employed		5.28
Operating Expense		49.89
Concession Fee		0.16
Depreciation		2.38
Taxes		0.00
Gross Target Revenue		57.70
Cross Subsidization		1.98
Aero Revenue Eligibility		55.72
Less: Actual Aero Revenue		3.90
Total Deficit (for the period 23rd Mar'08 to 31st Mar'08)		51.82

TOTAL TRUE-UP	2008
Total of Absolute Value	51.82
True up adjusted for Time Value	
<i>Fair Rate of Return</i>	10.02%
Discounting Factor	3.46
PV of Eligibility (for 9 da as on 01-Sep-21)	179.32

REGULATORY ASSET BASE	2008
Opening RAB	
Addition of Assets	2141.01
Asset Deletions	0.00
Depreciation	7.27
Closing RAB	2133.74
RAB for ARR calculation	2137.38
<i>Fair Rate of Return (Same as CP3 consultation pap</i>	10.0%

REVENUE	2008
From Regulated Charges	3.90
<i>Aero Revenues</i>	<i>1.94</i>
<i>Other Revenue Streams grouped as Aero</i>	<i>1.96</i>
Non Aero Revenue Streams (PBT)	6.59
Total Revenue	10.50

CAS-7(12)/2019/DIV-I/Body Scanner (E-152659)

Government of India
Ministry of Civil Aviation
Bureau of Civil Aviation Security
'A' Wing -I, II, III, Janpath Bhawan, Janpath,
New Delhi- 110001
Dated:- 08/04/2019

AVSEC CIRCULAR NO. 05/2019

Sub: Minimum Standards for Civil Aviation Security Equipment- Body Scanner

Terrorist incidents have forced State authorities to take additional security measures to protect Civil Aviation from potential terrorist attacks, including deploying of advanced technologies aimed at detecting threats of varying complexity. WTMDs (Walk Through Metal Detector) and HHMDs (Hand Held Metal Detector), for example, cannot detect non-metallic weapons and explosives. Body scanners detect both metallic and non-metallic items concealed on the body under clothing. Body scanners are also non-intrusive in nature.

Accordingly, in terms of Rule 3(b) of the Aircraft (Security) Rules, 2011 and in continuation of this Bureau Circular No. 25/2004, 02/2007 and 05/2017, the minimum standards/technical specifications of Body Scanners enclosed as Annexure-A are being issued. An SOP for the deployment of Body Scanners for screening of persons including passengers at Indian airports is also attached as Annexure-B.

All concerned shall adhere to the minimum technical specifications as prescribed in Annexure-A. However, Body Scanners with superior technical capabilities than those mentioned in Annexure A, shall also be permissible.

All concerned shall comply with Standard Operating Procedure as prescribed in Annexure-B.

Rakesh Asthaana

(Rakesh Asthaana, IPS) 8.4.19.

Director General

Received
Date/Time
Document Control Unit
Delhi International Airport Ltd.
11/4/19

Copy for information and necessary action to: -

1. Director General, CISF, 13 CGO Complex, Lodhi Road, New Delhi: **May kindly circulate to all ASG Units at the airports taken over by CISF.**
2. DGPs / IGP's all States / U.T.s.
3. Commissioner of Police, Delhi, Mumbai, Chennai & Kolkata.
4. Chairman, Airports Authority of India, Rajiv Gandhi Bhawan, New Delhi: with *request to please circulate to all AAI airports in the Country.*
5. CMD, NACIL (Air India) Ltd., Reservation Building, Safdarjung Airport, New Delhi-110003
6. MD, DIAL, New Udan Bhawan, Opp. Terminal-3, IGI Airport, New Delhi-37.
7. MD, MIAL, CSI Airport, 1st Floor, Terminal IB, Santacruz (E), Mumbai 400 09.
8. MD, CIAL, Cochin International Airport Ltd., Cochin Airport, Cochin.
9. MD, HIAL, Hyderabad International Airport Limited, Shamshabad-500 409, Ranga Reddy Distt, A.P.
10. MD, KIA Bengaluru, Administration Block, Bengaluru International Airport Devanahalli, Bangalore-560 300.
11. MD, Mihan India Private Ltd., Dr. Babasaheb Ambedkar International Airport, Old Terminal Building, Nagpur-440 005.
12. CSO, BAPL Durgapur Airport, MNAV-29 Bengal Ambuja Housing Complex City Centre, Durgapur- 713216
13. RD BCAS, Delhi, Chennai, Mumbai, Kolkata, Ahmedabad, Hyderabad, Amritsar, Guwahati, Imphal, Bengaluru, Bhopal, Bhubaneswar, Chandigarh, Jaipur, Lucknow, Patna, Raipur, Srinagar and Thiruvananthapuram: *to please circulate to all concerned at airports in the region.*

Copy for information to:-

1. Secretary, Civil Aviation, MoCA, RG Bhawan, New Delhi
2. Joint Secretary, MoCA, Rajiv Gandhi Bhawan, New Delhi (Kind attn.: Ms. Usha Padhee, JS)
3. DGCA, Technical Area, Opp. Safdarjung Airport, New Delhi-03
4. Director, R&AW, Cabinet Secretariat, Room No. 1001, B-1 Wing, 10th Floor, Pt. Deendayal Antyodaya Bhawan, CGO Complex, Lodhi Road, New Delhi – 110003 (Kind attn.: Shri K. G. Parveen Kumar, Director)
5. Joint Secretary (IS-I), MHA, Room No. - 110, North Block, New Delhi
6. Joint Director, IB, MHA, 35 S P Marg, New Delhi (Kind attn.: Shri. R. R. Verma, JD)
7. PS to Hon'ble Minister of Civil Aviation, RG Bhawan, New Delhi

Internal Distribution

Sr. PPS to DG, PPS to Jt. DG, PS to DDG (AMT), PS to DDG (MD), PS to DDG (DR), All JDs / DDs / ADs of BCAS HQ, Guard File

AD (OL) – with the request to translate this addendum in Hindi Language

TECHNICAL SPECIFICATIONS FOR BODY SCANNER

A. System Overview

- a. BODY SCANNER SYSTEM will consist of body scanner and required accessories.
- b. BODY SCANNER SYSTEM shall use Millimetre Wave (MMW) technology to scan passenger/person, shall actively illuminate the subject between the panels (area of scanning)
- c. BODY SCANNER SYSTEM shall not incorporate any ionizing radiation technology for the system e.g. X-rays or equivalent.
- d. BODY SCANNER SYSTEM shall provide automatic detection of items over the skin with image free solution using a generic mannequin. Threats shall be graphically presented on the generic mannequin so that security staff can tell the location of these objects for targeted search.
- e. BODY SCANNER SYSTEM shall detect metallic and non-metallic weapons/objects, standard/home-made explosives, improvised explosives devices and liquids/gels or any other item hidden under clothes over the skin.
- f. BODY SCANNER SYSTEM shall have TSA or ECAC approval/certification.
- g. Software/Technology up gradation, shall be provided by the manufacturer regularly.

B. Functional Requirements

- a. BODY SCANNER SYSTEM should ensure the system functions as per defined detection capability, and if required there shall be a provision of auto-calibration and /or periodic calibration by the OEM.
- b. The scan should be completed in a single sweep, not warranting change of the posture.
- c. RF signal strength used for scanning shall be safe for human body including those with pacemaker, medical implants and pregnant ladies. Model specific valid certificate from national/international accreditation laboratories, to this effect to be provided by the OEM.

C. Operator Control Requirements

- a. BODY SCANNER SYSTEM shall have a provision for control monitoring panel/work-station to activate scan, control/modify system parameters by the user.
- b. Scanned results PASS or FAIL, shall be displayed on an operator panel/workstation located away from scanner, as necessary pat-downs/searches may be carried out. Results shall be based on a generic mannequin figure, highlighting single or multiple areas of concern/reason for FAIL.

D. Safety Aspects

- a. There shall be no harmful radiation emitted by the Body Scanner System. Each system shall be provided with a Dosimeter by the Original Equipment Manufacturer (OEM) to check any harmful radiation emitted by the system at any given time.
- b. There shall also be no harmful radiation emitted by the system in or around the Body Scanner System. Each system shall be provided with a Dosimeter by the Original Equipment Manufacturer (OEM) to check any secondary and harmful radiation around the system at any given time.
- c. Pregnant women should be subjected to the same screening procedures as applied to other passengers/persons. However, if a pregnant woman expresses concerns, she may request a physical search in lieu of a search using detection systems such as HHMD, WTMD or body scanners. In such a case, private screening should be arranged.

E. Quality Aspects

- a. Minimum three performance certificates from the end users mentioning the satisfactory performance of the system to be provided by OEM.
- b. Compliance to Vibration test, Emission conformity and Electrical safety shall conform to international standards. Model specific valid certificate from national/international accreditation laboratories, to this effect to be provided by the OEM.
- c. OEM shall offer training module in English to cover operation, maintenance and troubleshooting. All technical information & documents shall be in English language.
- d. OEMs should have a system in place for product support via standard warranty, extended warranty and AMCs.
- e. OEM should impart 100% training to the end users.

F. Technical Requirements

Srl	Description	Specification						
1	Technology	Millimeter Wave , Non-ionising Electromagnetic radiation						
2	Operating Frequency Range	Up to 100 GHz						
3	RF Power Density (Peak) at 1 meter distance, in front of the panel	Up to 3000nW/square cm						
4	Through put	Minimum 300 passengers / hour						
5	Body Height Range	Minimum 2.25 Meters (Excluding platform)						
6	Scan and processed result time	Up to 8 seconds						
7	Detection capability	Should be able to detect all the prohibited items listed by the regulator.						
8	Dimensions	<table border="1"> <tr> <td>Height</td> <td>2.25 to 2.75 Meters</td> </tr> <tr> <td>Width</td> <td>1.3 to 1.6 Meters</td> </tr> <tr> <td>Depth</td> <td>2.2 to 2.6 Meters</td> </tr> </table>	Height	2.25 to 2.75 Meters	Width	1.3 to 1.6 Meters	Depth	2.2 to 2.6 Meters
Height	2.25 to 2.75 Meters							
Width	1.3 to 1.6 Meters							
Depth	2.2 to 2.6 Meters							
9	Electrical power Requirement	210 to 280 Volts with frequency 50 Hz \pm 5 %						
10	Average Power Consumption	Up to 4 KVA (Supported with UPS)						
11	Minimum operating Temp Range	+5 degree centigrade to +35 degree C						
12	Humidity	Up to 90% non-condensing						
13	Certification / Approvals	TSA or ECAC						
14	Image display	Touch screen / workstation						
15	Image storage	Minimum for 7 days						

STANDARD OPERATING PROCEDURE FOR BODY SCANNER

1. The concerned Airport Directors, in consultation with representatives of BCAS, Airport Security Unit (ASU)/Aviation Security Group (ASG) and Airline Operator (in case the equipment is to be installed by the airline operator) shall jointly decide the site for installation of relevant equipment.
2. The Standing Committee for Security vetting and security Compliance as per OM dated 29/01/2014 issued by BCAS shall vet and approve the installation of these equipments.
3. The concerned Airport Operators shall also appoint one system Integrator for ensuring that the above mentioned security equipment are integrated for smooth functioning at the control room of the concerned airport.
4. It shall be the responsibility of the procuring agency to get the equipment checked and certified including site acceptance test.
5. Body Scanners shall be installed at all airports at pre-embarkation security check points in a phased manner. Airport Operators of all Hypersensitive and sensitive Airports shall install Body Scanners, replacing all DFMDs, within one year from the date of issue of this Circular. Airport Operators of other Airports shall install Body Scanners replacing DFMD within two years. Atleast one set of DFMD shall be maintained for screening of passengers/persons with medical conditions.
6. 10% of the passengers, cleared by the Body Scanner System, shall be randomly searched. The physical search will include full pat down search.
7. Any person who refuses to go through body scanners shall be subjected to pat down search invariably.
8. Searchers of both genders shall be deployed at each PESC point. The number of searchers required will depend on the passenger volume.
9. All persons passing through BODY SCANNER SYSTEM has to remove their shoes, belt, jacket, thick clothing and to divest all metallic/ non-metallic items on person.
10. Sufficient space shall be made available before and after the use of Body Scanner to ensure optimum throughput.
11. BCAS officers while undertaking quality control oversight at the airports in India shall ensure implementation of instructions on the subject.