F. No. AERA/20010/MYTP/BIAL/2011-12/Vol. - III
Airports Economic Regulatory Authority of India
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Minutes of the Stakeholder Consultation Meeting

Consultation Paper No. 22/2013-14 dated 24.01.2014
(Addendum to Consultation Paper No. 14/2013-14 dated 26.06.2013)

Date & Time: 10.02.2014 at 1100 hrs

Subject: Determination of tariffs for aeronautical services in respect of Kempegowda International Airport, Bengaluru for the first Control Period (from 01.04.2011 to 31.03.2016)

1. A Stakeholder Consultation meeting was convened by the Airports Economic Regulatory Authority of India (AERA or the Authority) on 10.02.2014 at 1100 hrs. in the Conference Room, 1st Floor, AERA Building, Administrative Complex, Safdarjung Airport, New Delhi to elicit the views of the stakeholders on the Consultation Paper No. 22/2013-14 dated 24.01.2014 (Addendum to Consultation Paper No. 14/2013-14 dated 26.06.2013) issued by the Authority for determination of tariffs for aeronautical services in respect of Kempegowda International Airport, Bengaluru for the first Control Period (from 01.04.2011 to 31.03.2016). The meeting was chaired by the Chairperson, AERA. The list of the Participants is enclosed at **Annexure – I**.

2. Chairperson, AERA welcomed the participants and requested Shri Bhaskar, Sr. Director – Finance & Support Services, Bengaluru International Airport Ltd. (BIAL) to make a brief presentation on the additional issues which have come up in the current Consultation Paper.

3. **Presentation By BIAL:**

3.1. Shri Bhaskar of BIAL made the presentation on behalf of BIAL Management to put forth its views on the proposals contained in this Consultation Paper and their implication on BIAL's finances. Shri Bhaskar indicated that BIAL will submit their detailed written responses to the Consultation Paper separately in due course.

3.2. The presentation made by Shri Bhaskar is at **Annexure – II** wherein, inter-alia, he gave an update on the status of the airport project post Consultation Paper No. 14/2013-14 dated 26.06.2013. This included :-

(a) Performance Status Update
(b) Traffic – update
(c) ASQ performance
(d) T1 expansion as well as future expansion plan

3.3. The major observations/ concerns raised by Shri Bhaskar, inter-alia, included the low profitability, inadequate funds for needed expansion, risk of non-compliance of financial covenant, inadequate returns, inability of shareholders for additional equity infusion, pre-control period losses, treatment of Cargo, Ground Handling Services as aeronautical, allocation of assets into aeronautical and non-aeronautical, land monetization (land value adjustment) and Taxation.

3.4. Shri Bhaskar stated that the airport has completed the expansion of T1 and will need additional expansion in terms of second runway and other appurtenant works as well as a new terminal T2. This will be an on-going requirement. Shri Bhaskar stated it is not clear whether Rs. 160 crore projected as additional UDF in the hands of BIAL on account of the 40% shared revenue till vis-à-vis single till as per the Addendum Consultation Paper will be treated as capital receipt or otherwise. He stated that the Consultation Paper indicates that the money can be used only for capital need of the project. However, the project manager should have the flexibility to use these funds (from additional UDF) also for the purposes other than capital, e.g., for operation and maintenance or working capital etc.

3.5. Shri Bhaskar stated that BIAL had made submission to the Authority for consideration of 30% cross subsidization in view of its financial needs for capital expansion and debt repayment. Though Authority has considered 40% shared revenue till, Shri Bhaskar stated that the same may not generate adequate financial resources to meet the financial covenants of BIAL. Therefore he reiterated the request of BIAL to consider 30% shared revenue till while calculating the aeronautical charges for BIAL. He further submitted that Authority should consider pre-control period losses also while determining the tariffs for BIAL.

3.6. Shri Bhaskar also stated that in view of the proposals in the Consultation Paper, as per their calculations, BIAL would be left with only Rs. 10 crore casb balance at the end of the current Control Period, which will not take care of any exigencies or future expansions of projects either in the current Control Period or the next Control Period. Further, the Debt Service Coverage Ratio (DSCR) for BIAL continues to be less than 1 and therefore obtaining any future debt for further expansion will be difficult.

3.7. Shri Bhaskar further stated that as per their calculation, the effective average annual return on equity to the shareholders for the first control period comes to 9.3%. He also mentioned that the promoters have taken significant risk of investing in the airport and hence he requested that the Authority to consider an adequate rate of return for the airport, especially considering that when the initial documentation during bidding was made, a return of 21.66% was assured. He further stated that BIAL in its MYTP submission had considered a return of 24.4% as per the report of KPMG.

3.8. He also said that it is difficult to arrange for additional equity infusion of Rs. 649 crore to bridge the funding gap left by the Authority as the stakeholders have expressed their inability to infuse equity going forward. He also submitted that BIAL requires a chance to explain the issue regarding the EIL Report on project cost on account of which the adjustment to RAB has been proposed by Authority. He stated that adjustment to RAB on account of foreign exchange fluctuations should also be revisited by Authority. Shri Bhaskar also stated that submissions will be made on Ground Handling, Fuel Services & ICT to be treated as non-aeronautical services.

3.9. Shri Bhaskar further mentioned that as per their calculations, BIAL would be left with a deficit of Rs. 99 crore even under 40% shared revenue till proposed, the detailed working for which will be given in written submission. He further sought clarification whether 40% shared revenue till will only be for the current Control Period or would also continue in the next Control

Period. Shri Bhaskar further submitted that Rs. 160 crore is proposed to be reduced from the opening RAB at the beginning of next Control Period even before the asset is capitalized, and requested the Authority to reconsider the issue.

3.10. Further, on taxation issue, Shri Bhaskar requested that actual taxes paid should be considered rather than tax expenditure as per the audited income statement. As far as the land is concerned, reduction from the RAB is harsh and the land should be treated as per Concession Agreement and kept out of the purview of regulation. BIAL also asked for extension of time for submission of comments on the Consultation Paper.

4. Comments of Govt. of Karnataka:

4.1. Representative of Govt. of Karnataka asked for extension of time up to 10.03.2014 for submission of comments on the Consultation Paper and stated that a written communication has also been sent in this regard.

5. Comments of International Air Transport Association:

5.1. Mr. Malvyn Tan, Assistant Director, International Air Transport Association (IATA) submitted that requirement of additional funds for capital need of expansion is the sole responsibility of the shareholders and the approach to regulatory till (single or 40% share) cannot be dependent on the ability or otherwise of the shareholders to bring in required resources. Further, the Concession agreement between airport and government does not specify the type of regulatory till to be adopted and it is the regulator who has to decide on the approach of regulatory till, keeping in view the interests of passengers and the airport. The first Consultation paper issued by Authority proposed single and dual till and the addendum now proposed 40% shared till, which appears to be an afterthought and a compromise. He further stated that the shared till resulted in increase of UDF, which is not in the interest of passengers. He stated that the regulator had recommended single till after comprehensive study and stakeholder consultation, and it should be applied in the instant case too. IATA supports single till approach.

5.2. He also said that MoCA is a stakeholder, and MoCA's view of 40% shared revenue till is not a policy directive and should not have any special consideration. Mr.Tan further stated that the Airport Expansion cannot dictate the regulatory till to be adopted. He said that inability of airport operator to infuse equity should not burden the passengers. He stated that till should not be altered if the airport operator is unable to fund its expansion, rather the Airport operator should arrange for equity or other means of finance. He also desired to know from BIAL whether they have explored any other financing options. He also stated that AERA should be consistent in applying single till, since it already guarantees the airport operator a Fair Rate of return, including a 16% return on cost of Equity.

5.3. IATA also requested for 4 weeks extension of time for submission of its written comments on the Consultation Paper.

6. Comments of Association of Private Airport Operators:

6.1. The representative of Leigh Fisher on behalf of, Association of Private Airport Operators (APAO) stated that, they favour Dual Till approach for BIAL.

However, they support shared revenue till (30%) proposed by BIAL as a workable solution in larger interest of all stakeholders. They stated that the proposed adjustment to RAB (Transfer of resources) will neutralize benefit accruing to operator on account of shared revenue till.

6.2. APAO representative also stated that Cost of Equity should be 24.4%. He said that NIPFP report on which Authority relies on to determine Cost of Equity is flawed and the 16% equity return would impact expansion plans and lead to shortfall.

6.3. The APAO representative also stated that there should be no conditionality imposed on Rs. 160 crore excess funds allowed under the 40% shared revenue till, so that the airport operator is adequately incentivized to use these funds for purposes also other than capital needs. He requested the Authority to consider revenue from Cargo, Ground Handling and ICT Services as Non-aeronautical revenues, as was proposed by the Authority in earlier Consultation Paper. He also requested that the commercial exploitation of land should not be adjusted from RAB and the GoK have given their views in this regards. APAO representative also requested for 3 weeks extension of time for submission of their comments.

7. Chairperson in response to APAO's request about unconditional use of Rs. 160 crore, sought BIAL's views. BIAL's representative stated that it was their understanding that as per the proposal contained in the Consultation Paper, this money was to be used only for capital expansion, which would not serve their purpose and that BIAL should have flexibility in use of these funds.

8. Chairperson reiterated that NIPFP report does not have any alleged infirmities. NIPFP have made their independent calculation regarding the asset beta of the comparator set. As regard IATA's comments about MoCA's letter, Chairperson stated that the Government's letter speaks about striking a balance between the passengers and BIAL in giving its views for 40% shared revenue till. The Authority has made the calculation based on 40% shared revenue till in addition to single till and has put forth the proposal for stakeholder consultation.

9. **Comments of Federation of Indian Airlines:**

9.1. Jai Sagar Associates, on behalf of Federation of Indian Airlines (FIA) endorsed the views of IATA and stated that MoCA's comments should not change AERA's guidelines/ approach for single till. FIA also noted the cost per sq mt of the Capex of BIAL is much higher, as observed by Authority, in comparison to Government run airports and this needs to be looked into as 'Gold plating' is a major issue. They also pointed out that the Authority has allowed Depreciation @100% which is contrary to AERA's Guidelines. FIA while welcoming the Authority's analysis/detail on allocation of assets also mentioned that the elements of calculation of RAB have not been examined in detail. FIA also requested for extension of time for submission of comments.

9.2. BMR Associates on behalf of FIA observed that the Authority has reworked the allocation of assets between aero and nor-aero, which has increased from 82:18 earlier to 89:11 now. This need to be verified in detail as the aero allocation has increased, thus burdening the passengers. FIA representative also stated that operational cost as submitted by BIAL has been accepted by Authority which needs to be checked in detail as the same has increased form the projections made in the previous consultation paper. As regards

Terminal expansion, FIA stated that the cost submitted by BIAL earlier was Rs. 11,744 per sq.ft., which has gone up to Rs. 16,434 per sq ft., for which the Authority has proposed to commission a study. FIA requested that till the study is completed, there should be no burden on the passengers. Further, FIA submitted that real estate development has not progressed and should be expedited by the airport operator, in order to reduce the burden on passengers.

10. As regards allocation of aero and non-aero assets, Chairperson stated that Authority has, for the present, gone by BIAL's calculation and the consultant's analysis. He further clarified that the Authority has always taken a consistent stand on land monetization. Autbority does not believe that land is given without nexus with airport operations and making it viable. However, the comments/ input from GoK would be of relevance before the Authority would consider the extent of land monetization to defray the aeronautical tariffs. The works of the concerned projects had already been awarded/commissioned long time back even before AERA came into existence and hence the reasonableness of the cost of these projects shall be ascertained only after the study to be conducted by an independent engineer, as proposed in the Consultation Paper.

11. Representatives of Airports Authority of India, Delhi International Airport Pvt. Ltd. (DIAL) and Hyderabad International Airport Pvt. Ltd. (HIAL) said that they will submit their written comments on the Consultation Paper.

12. **Comments of Airlines Operator Committee, Bangalore:**

12.1. Airlines Operator Committee (AOC) representative and representative of Air France said that aeronautical and non–aeronautical services need to be clearly defined. They submitted that revenue from airlines service like fuel throughput, cargo and catering should be termed Aeronautical Revenue. Non aeronautical services should be only from infrastructure of the airport like lounge etc. He said that BIAL needs to concentrate on increase of non-aero revenue aggressively. He also said that Privatization of airports has led to increase in costs.

13. Chairperson clarified that aeronautical services are clearly defined in the AERA Act and hence there is no ambiguity. He stated the Authority has revisited the issue of revenue accruing to the airport operator from aeronautical services as 'Aeronautical Revenues' for reasons adequately mentioned in the Addendum. The Government has also felt as such. He further stated that revenue from fuel throughput has been considered aeronautical from inception, based on the provisions of AERA Act. As long as these Aeronautical Revenues are considered while determining ARR, there is no burden on passengers.

14. **Comments of Blue Dart:**

14.1. Blue-Dart representative stated that they support single till model to determine aeronautical charges. Further any proposed year on year increase needs to be properly analyzed taking into account the competitive environment. Salvage Value of assets should be considered while calculating depreciation. Blue Dart supports the Authority in not considering pre control period losses. The huge capex proposed by BIAL should be carefully analysed by AERA. The cost of interest proposed by BIAL on rupee loans debt and ECB loans is on the higher side and Authority should get study carried out by

NIPFP. He further stated that 16% COE is high as there is no risk and only 11.04% as per NIPFP report should be considered. The bad debt of King Fisher Airlines should be disallowed and passengers not burdened with the same. He further stated that CGF revenues should be treated as aeronautical revenues.

15. Shri Bajaj, Member, AERA Clarified that Depreciation being considered by the Authority is in line with the depreciation policy of the operator. Chairperson further clarified that maturity mismatch is avoided by 100% depreciation resulting in lower Net Fixed Assets and it also avoids need for separate set of accounts. He further said that higher depreciation also helps airport operator to get some more money to repay debts.

16. **Comments of Bharat Petroleum Corporation Limited:**

16.1. Representative of Bharat Petroleum said that Fuel Throughput Charges (FTC) of Rs. 1500/- was decided in pre-regulation era. While they support the Authority's proposal to consider this as aeronautical charges, they also stated tbat higher FTC which includes taxes and airport operator's fee is subsidizing other charges. In BPCL's view the Airport operator fee should be separated.

17. APAO representative said that airlines should appreciate improvement at Airports (reduction in waiting time) by creation of new infrastructure at private airports rather than focus on high cost of facilities created by the airport.

18. Chairperson clarified that effective stakeholder consultation is required and is very useful before crucial decisions are taken by airport operator on capital expansion/ creation of new infrastructure, so that the users will know the financial implications and the benefits expected.

19. Hindustan Petroleum Corporation Limited supported the views expressed by the representative of AOCC.

20. Representative of Singapore airlines said that 131% increase in Landing, Parking and Housing charges is not welcome and he supported views of IATA on other issues.

21. Chairperson expressed his thanks to the stakeholders for their participation and comments in response to the Addendum to Consultation Paper, and requested that their written comments, if any may be submitted well in time, for further consideration of the Authority. He further stated that in case the stakeholders have additional comments to offer on the new consultation paper over the comments already submitted for the old consultation paper, then a consolidated response to both the Consultation Papers may be submitted.

22. The meeting ended with a vote of thanks to the Chair.

Annexure – I

List of Participants:

Airports Economic Regulatory Authority of India :

Shri/Smt

1. Yashwant S. Bhave, Chairperson - in Chair
2. D. C. Bajaj, Member
3. D. Devaraj, Member
4. Alok Shekhar, Secretary
5. Capt. Kapil Chaudhary Director (Legal)
6. C.V. Deepak, OSD-II
7. Radhika R., JtGM
8. A.B. Saxena, DGM
9. Praveen Gupta, AGM(Finance)
10. R.K. Gupta, AGM (Finance)
11. S. Dey AGM (Finance)
12. Dheeraj Khanna, Manager (Finance)

Bangalore International Airport Pvt. Ltd.

13. Hari Marar, President, Airport Operations
14. B.Bhaskar, Sr. Director – Finance & Support Services
15. Ashwini Thorat, General Manager
16. Kiran kumar J G, Asst. General Manager – Finance Controlling
17. K. Gajendran, President Airport Development, GVK
18. Raj L Andrade, Vice President
19. P. Anand Kumar, Asstt. Vice President – Head
20. Manu Kulkarni, Consultant
21. Sudarshan, Consultant

Govt. of Karnataka

22. C.G. Suprasanna, Joint resident commissioner

Airports Authority of India (AAI)

23. S Samantha, General Manager (Finance)
24. R Ramani, General Manager (Finance)

Air India

25. Prem Sagar, Asst. General Manager

International Air Transport Association (IATA)

26 Amitabh Khosla, Country Director - India
27 Malvyn Tan, Assistant Director Industry Charges, Fuel & Taxation

Mumbai International Airport Pvt. Ltd. (MIAL)

28. Chanderbhan Manwani, Sr. Vice President

GMR Hyderabad International Airport Pvt. Ltd./ Delhi International Airport Ltd.,

29. Madhukar Dodrajka, General Manager-Finance
30. Vikas Gangwal, Manager

Hong Kong Dragon Air

31. Ashok Batra, Airport Manager

Association of Private Airport Operators (APAO) :

32. Satyan Nayar, Secretary General
33. Dr. K.V. Damodharan, Advisor – Regulatory Affairs
34. Pawan Chande, Associate Director, Leigh Fisher

Air France:

35. Sanjiv Chawla, Station Manager – Bangalore

Federation of Indian Airlines (FIA) :

36. Divya Chaturved, (JSA)
37. Jeetu Bairathi, (BMR Advisors)
38. Gaurav Khurana, (BMR Advisors)

Hindustan Petroleum Corporation Ltd.

39. J S Khanuja

Inter Globe Aviation Limited (IndiGo)

40. Praveen Gupta, Deputy GM - Corporate Affairs
41. Shreshth Sharma , Senior Legal Counsel

PKF Sridhar Santhanam

42. Ravi Surya Narayana, Sr. Partner
43. Seethalakshmi M., Partner
44. Shanta Mani

Singapore Airlines

45. Bibhash Ghosh, Assistant Station Manager

Annexure-II

Kempegowda INTERNATIONAL AIRPORT BENGALURU

Consultation Paper no 22 / 2013-14 (addendum to CP no 14) on determination of tariff for Aeronautical services of BIAL - Presentation

February 10, 2014

Contents

- Performance Update
  - Traffic – YTD Dec 13
  - ASQ performance
  - T1 expansion

- Summary of observations / concerns
  - Low Profitability
  - Inadequate funds
  - Risk of non-compliance of financial covenant
  - Inadequate returns
  - Exposure of huge additional equity infusion
  - Pre-control period losses including losses as on Airport opening Date (AoD)
  - Reduction in opening RAB
  - Treatment of CGF & ICT services and revenue
  - Allocation of assets into Aeronautical and non-aeronautical
  - Land monetization – Land value adjustment
  - Taxation

-13-

Introduction

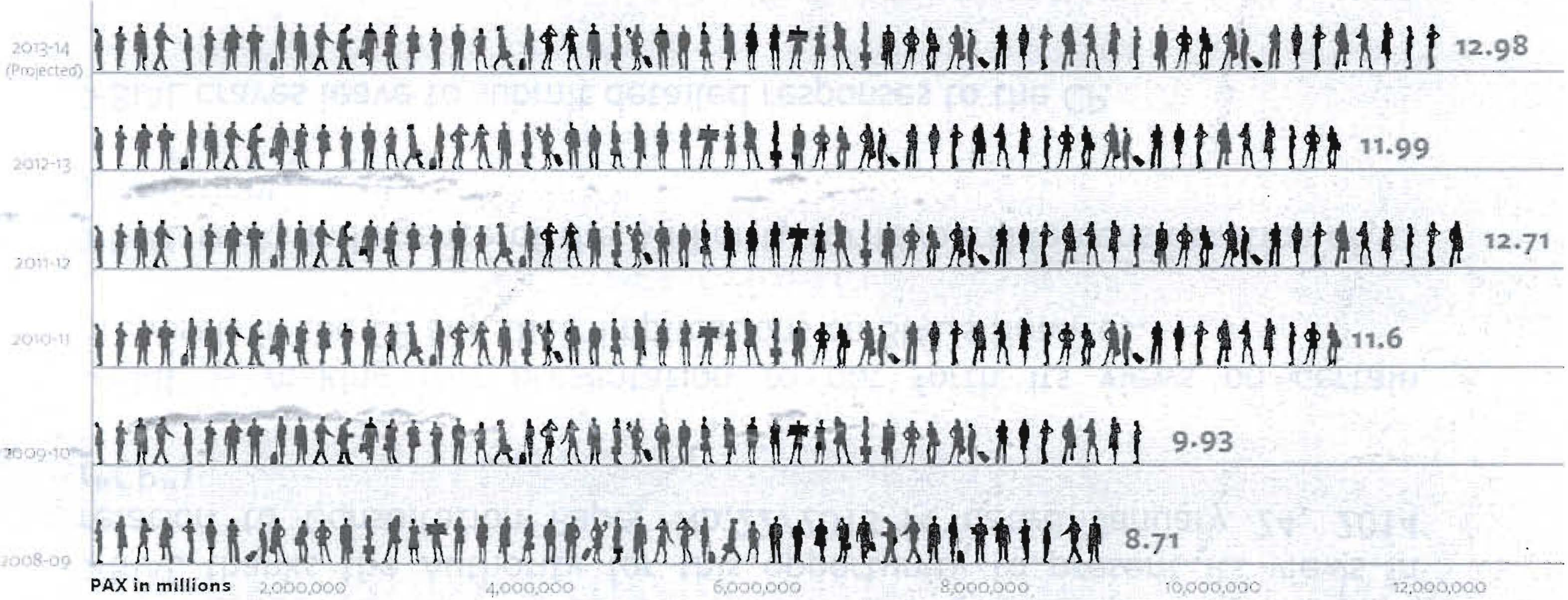
- BIAL thanks the Authority for this opportunity to present its views in relation to Consultation Paper No.22/2013-14 dated January 24, 2014 ("CP").

- BIAL is making this presentation to put forth its views on certain proposals in the CP and their implications on BIAL's finances.

- BIAL seeks indulgence of the Authority for favourable consideration of its submissions.

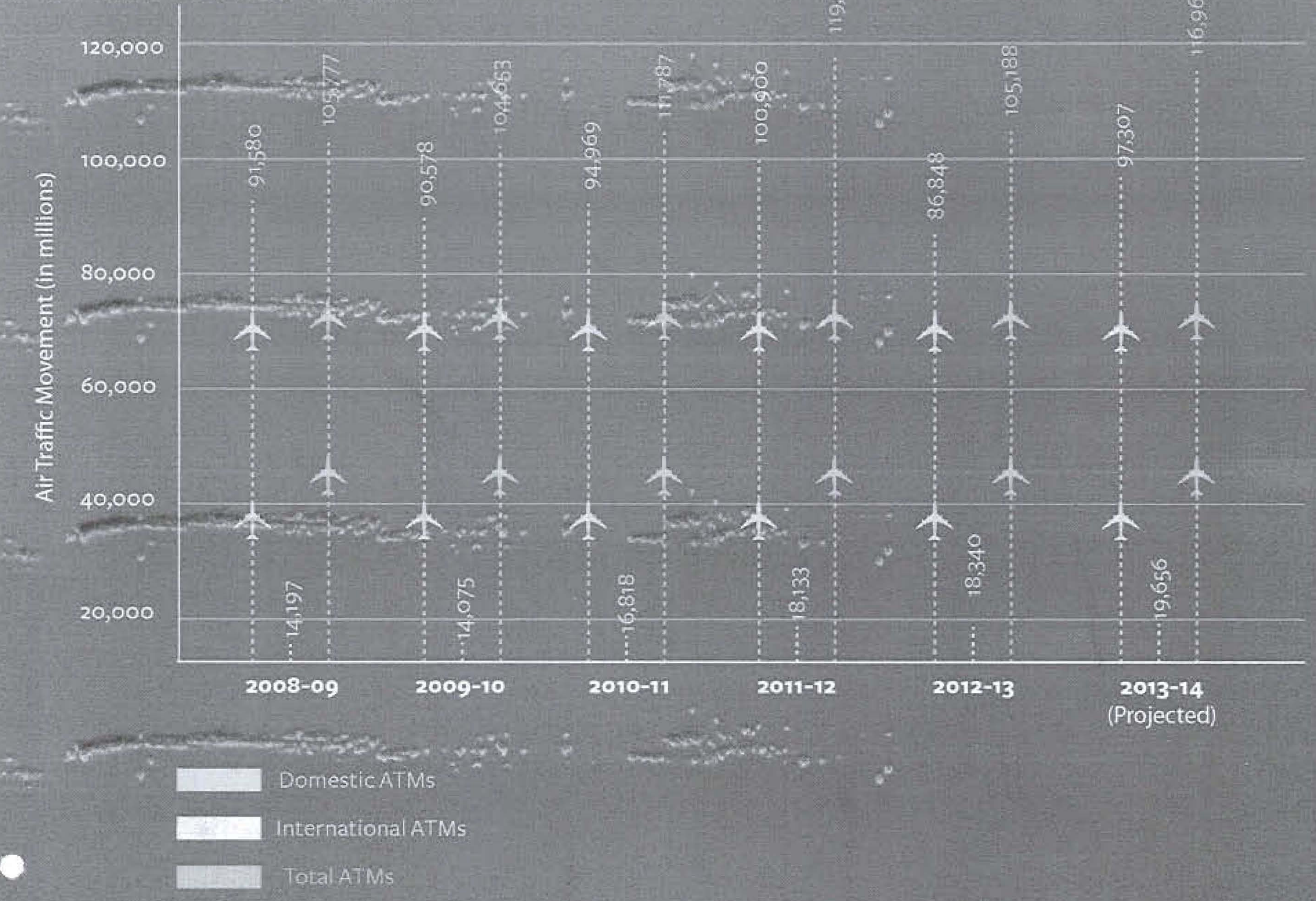
- BIAL craves leave to submit detailed responses to the CP.

Traffic Growth

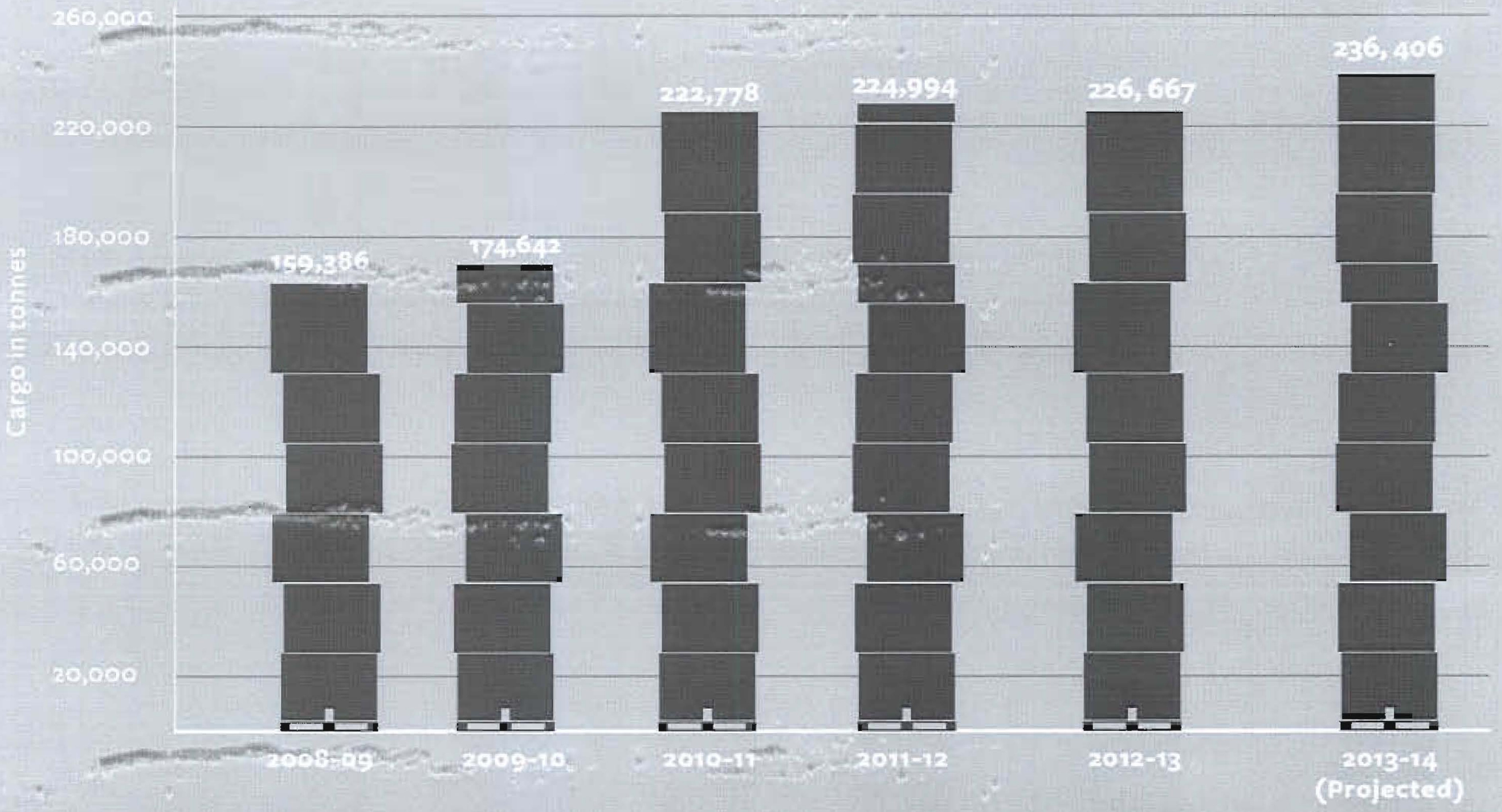


- 16 -

ATM Growth



Cargo Movement Growth

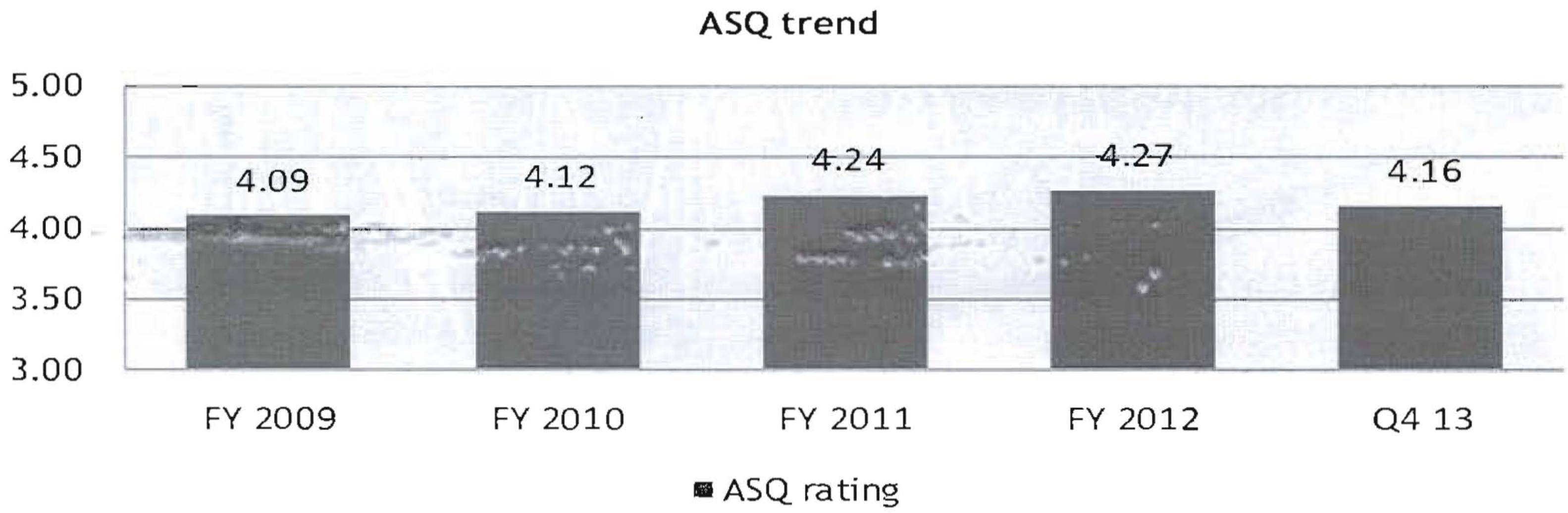


BIAL - Performance update

GVK

Kempegowda INTERNATIONAL AIRPORT BENGALURU

Update on ASQ performance -



1. The above ASQ rating is the rating towards overall satisfaction with the airport
2. ASQ rating is measured on a scale of 1 to 5, 1 being min and 5 max
3. ASQ rating is based on a calendar year
4. FY - Full Year, Q4 - Quarter 4

BIAL Performance update - T1A completed

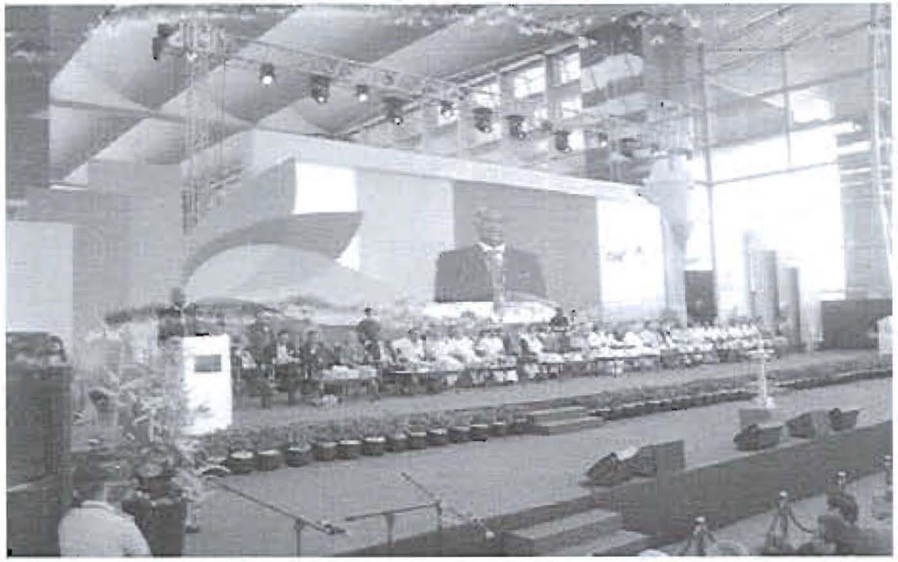
- 19 -

BIAL - Performance update

GVK

Kempegowda INTERNATIONAL AIRPORT BENGALURU

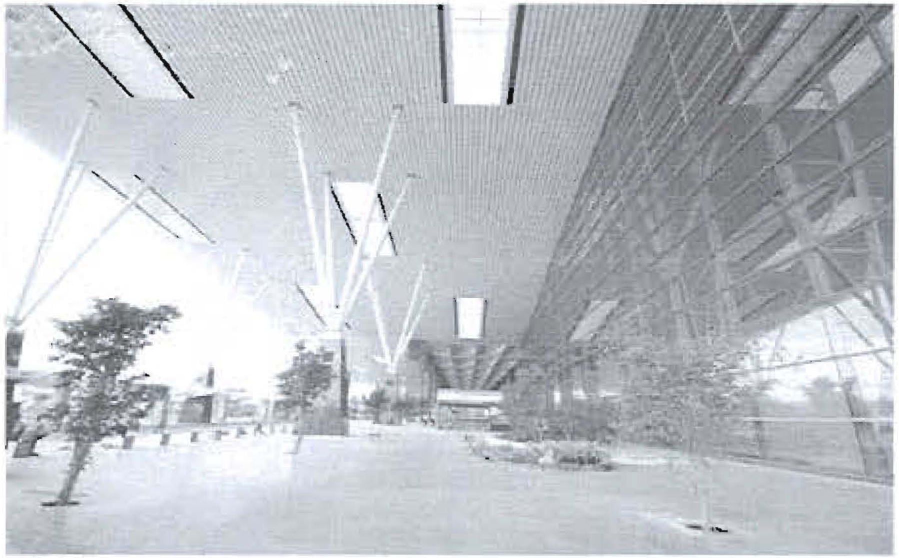
Update on T1 expansion -



B'AL - Performance update

GVK Kempegowda INTERNATIONAL AIRPORT BENGALURU

Update on T1 expansion -



Summary of observations / concerns

GVK Kempegowda International Airport Bengaluru

- In response to Consultation Paper (CP) no 14 dated 26th June 13, BIAL made our humble submissions to AERA.

- As per our understanding of CP no 22 (addendum to CP 14) dated 24th January 14, certain concerns raised by BIAL needs the kind attention by AERA

- Pertaining to,
  - Low Profitability
  - Inadequate funds
  - Risk of non-compliance of financial covenant
  - Inadequate returns
  - Additional equity infusion

- In addition, BIAL has issues concerning,
  - Pre-control period losses
  - Reductions to opening RAB
  - Treatment of CGF services & its revenue
  - Land monetization - Land value adjustment
  - Proposed Regulatory Till mechanism

Summary of observations / concerns

Low profitability

- CP no 14 -
  - Low profitability for Ist control period (approx 11.57%)
  - Disallowances of losses as on AOD

- Our Submission -
  - With a request to consider generation of adequate profits to take care of future expansion & smooth operations of the airport.
  - To consider pre-control period losses including losses as on AoD

- CP no 22 (Addendum to CP 14) -
  - The profitability as per CP no 22 stands further reduced to 10.98%.
  - The pre-control period losses remain unaddressed.

- BIAL request AERA to consider tariff determination with 30% Shared Revenue Till (SRT) which meets the expansion and growth requirements

Summary of observations / concerns

Inadequate funds

- CP no 14 -
  - Severe cash flow constraints .
  - The Internal Resource Generation (IRG) and its utilization table clearly indicates inadequate funds for future expansion and for regular operations of Airport.

- Submission by BIAL -
  - Imminent requirement of capacity creation / future expansion needs & priority.
  - BIAL submits to consider our proposal for generation of adequate cash & profits for future expansion and smooth operations of the Airport
  - Cash flow is the fulcrum of expanding airports

- CP no 22 (Addendum to CP 14) -
  - The running of the Airport with Rs. 10 crore as cash balance during control period (equivalent to approx 10 days expenses of running airport)
  - Airport will be crippled to face unanticipated exigencies

- BIAL submits to consider tariff determination with 30% Shared Revenue Till (SRT) which can address generation of adequate funds as explained above.

Summary of observations / concerns

Risk of non-compliance of financial covenant

- CP no 14 -
  - Risk of non-compliance of financial covenant- Debt Service Coverage Ratio (DSCR)

- Submission by BIAL -
  - Exposure in terms of failure to comply with covenants of Loan agreement. This will result in difficulty in raising additional debt for future expansion projects
  - Provisions of Concession Agreement (CA) : Article 10.2.4 of CA stipulates that the IRA, at the time of determination of aeronautical charges, needs to ensure compliance with loan agreement covenants till repayment of debt of initial phase or 15 years of financial close, whichever is earlier

- CP no 22 (Addendum to CP 14) -
  - The risk of non-compliance of financial covenant has not addressed in CP no 22. The estimated DSCR is lower than 1.4 which is minimum DSCR to be maintained by BIAL as per Loan agreement
  - Usage of Rs. 160 crores cash restrained from any other use except for funding future expansion has further aggravated the risk of non-compliance of DSCR as it results in DSCR lower than 1.0

- BIAL submits to consider tariff determination with 30% SRT and to ensure generation of adequate internal accrual which can confirm the meeting of minimum DSCR of 1.4

Summary of observations / concerns

Inadequate returns

- CP no 14 -
  - It is observed that an average return to shareholder for I control period @ 9.3% in spite of cost of equity assured by AERA @ 16%

- Submission by BIAL -
  - Provide adequate return considering risks taken by promoter in developing a Greenfield airport
  - The project of BIAL envisaged 21.66% as IRR that would be generated through concession period
  - Further, the study conducted by KPMG recommended 24.4% return on equity for BIAL and same was submitted to Authority for its consideration

- CP no 22 (Addendum to CP 14) -
  - AERA is yet to address the above issue as the effective Return on Equity (RoE) has dropped from 9.3% (CP no 14) to 8.3% (CP no 22).

- BIAL submits to consider tariff determination with 30% SRT with cost of equity @ 24.4%

Summary of observations / concerns

Exposure of huge additional equity infusion

- CP no 14 -
  - Rs. 649 crore additional equity infusion that will be required for future expansion & operational requirements
- Submission by BIAL -
  - BIAL in its written submission, pleaded AERA to consider tariff determination suitably addressing the following -
    - The inability of promoters to infuse additional equity.
    - Requirement from promoters for additional Equity infusion will jeopardize the future expansion plans and needs attention.
- CP no 22 (Addendum to CP 14) -
  - An amount of Rs. 492 crore (under 40% SRT) of additional equity infusion requirement still persists to meet future expansion & operational requirements in I Control Period
- BIAL submits to consider tariff determination with 30% SRT with cost of equity @ 24.4% assuring sufficient generation of internal accruals for funding of future expansion and as well meeting regular operational requirements of Airport

Summary of observations / concerns

Pre-control period shortfall including losses as on AoD

- CP no 14 -
  - AERA has considered Rs. 33 crore in both Single Till & Dual Till as against BIAL claim of Rs. 241 crore in Single Till and Rs. 528 crore in Dual Till
  - Losses as on AoD have not been considered as part of tariff determination
- Submission by BIAL -
  - BIAL requested AERA to consider the computation if pre-control period shortfall based on Till adopted for tariff determination
  - BIAL further requested AERA to consider and reimburse losses as on AoD.
- CP no 22 (Addendum to CP 14) -
  - AERA proposes not to consider the pre-control period shortfall
- BIAL submits to consider pre-control period shortfall including losses as on AoD

Summary of observations / concerns

Adjustment to Regulatory Asset Base

- CP no 22 (Addendum to CP 14) -
  - AERA proposes not to consider the adjustments due to forex impact.
  - AERA proposes to deduct from opening Aero RAB (1st Apr 2011) approximately Rs. 69 Crores incurred during Phase I.
- BIAL submits to consider forex impact towards RAB and requests not make any deduction from opening RAB amount based on EIL report to which BIAL is not been given opportunity to explain.

Summary of observations / concerns

Treatment of Cargo, Ground handling, Fuel farm (CGF) & ICT services and revenues

- Section 13(1)(a)(vi) requires Authority to honor concessions granted by Central Government.

- ICT Revenues and Revenues accruing from CGF Services, in entirety, may kindly be treated as non-aero revenues as contemplated under the CA.

Summary of observations / concerns

Generation of inadequate funds even under 40% SRT -

- Even assuming no future expansion to be undertaken, there will be an additional equity infusion of approx Rs. 99 crore towards regular operations and maintenance of airport.

- Hence, BIAL pleads AERA to consider determination of Aeronautical tariff as per MYTP submission made with 30% SRT and cost of equity @ 24.4%

31

Summary of observations / concerns

GVK Kempegowda International Airport Bengaluru

Regulatory Till

- BIAL kindly requests the Authority to cogitate Section 13(1)(a)(vi) of the AERA Act, to consider concessions provided. BIAL's still views that the CA contemplates dual till but as an workable solution we could deliberate on hybrid till.

- Authority has virtually proposed a single till regime and with no benefit that will accrue to BIAL on the proposed 40% SRT model as the conditions attached to it will take away the benefits and convert the same into a Single Till

- BIAL requests Authority to consider that while Concession Agreements permits collection of UDF for development and expansion of airport, the same does not contemplate subsequent reduction from RAB.

- BIAL submits that 30 % SRT would ensure adequate internal resources for funding airport and requests that the same be considered without conditions or adjustments to RAB /ARR in the next control period

- Certain clarifications
  - Is the present 40% SRT model proposed only for the current control period?
  - Reduction from RAB even before assets are capitalized ?
  - BIAL needs clarity on accounting and taxation impacts / treatment with respect to the value arising out of difference between UDFs collected under 40% SRT and Single Till during the control period.

-33-

Summary of observations / concerns

Land treatment

- BIAL is free to utilize the land for Airport & Non Airport activities under Clause 4.1 of Land Lease Deed ("LLD"). Clause 4.2 of the LLD requires BIAL to seek the approval of the Government only if any activities that are not covered in Schedule B of the LLD are proposed to be undertaken.

- LLD contemplates separation of airport and non-airport activities and does not contemplate cross subsidization.

- GoK in its letter dated 26th August, 2013 has indicated that principles of utilization of land are mentioned in LLD, Concession Agreement ("CA") and State Support Agreement ("SSA"). These agreements do not impose any restrictions on BIAL and contemplate no role for Authority in 'Real Estate Activities'.

Summary of observations / concerns

Land treatment

- Further, the SSA (clause 10.2) also specifically recognizes that BIAL may carry out any Non-Airport Activities. Further as per clause 4.2 (iii) of SSA, BIAL has been mandated to promote the development of Non-Airport Activities

- In case of MIAL and DIAL also, respective SSAs clearly keep revenue generated from Real Estate activities (akin to Activities in Part 2 of Schedule B) out of the purview of cross subsidization and this has been accepted and implemented by the Authority.

- Hence, it is humbly submitted that real estate activities be kept completely outside the scope of regulation.

Summary of observations / concerns

Taxation

- BIAL requests that tax treatment in C.P. No.14/2013-14 be retained, i.e. reimbursement of actual taxes paid rather than tax expenses reflected in the audited Income Statement.

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Thank you

-37-