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20th July, 2026

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Mr. Ram Krishan
Director - Policy & Statistics
Airport Economic Regulatory Authority
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Subject: Comments of Lufthansa Group on Consultation Paper (CP 02/2026–27) Rajiv Gandhi International Airport, Hyderabad (HYD) – Fourth Control Period (01 April 2026 – 31 March 2031)

Lufthansa Group (comprising Lufthansa German Airlines, Lufthansa Cargo AG, and Swiss International Air Lines) sincerely appreciates the Authority for providing stakeholders with the opportunity to submit its comments for the consultation process in relation to the tariff determination for Rajiv Gandhi International Airport Hyderabad (HYD) for the Fourth Control Period (01 April 2026 – 31 March 2031).

We note that the International Air Transport Association (IATA) has submitted detailed comments in response to the Consultation Paper. Lufthansa Group aligns with and adopts IATA's submissions in this regard. In addition, we wish to present our specific, topic-wise comments as set out below:

1. **Capital Expenditure and Proportionate Tariffs**

The proposed capital investment programme for the Fourth Control Period is significant and will have a direct bearing on the Aggregate Revenue Requirement (ARR) and the aeronautical charges ultimately payable by airlines and passengers. While we fully recognise the importance of timely infrastructure development to support future growth, it is equally important that the proposed capital expenditure is subjected to rigorous regulatory scrutiny to ensure that only investments which are necessary, efficiently incurred and demonstrably beneficial to airport users are included in the Regulatory Asset Base.

Airport charges constitute a significant component of an airline's operating costs. Any increase in aeronautical tariffs directly affects route economics, commercial viability and, ultimately, passenger affordability. Accordingly, infrastructure investment should be carefully assessed not only from the perspective of future airport capacity but also in terms of its necessity, timing, scope, cost efficiency and the measurable operational benefits that it delivers to airline operators.

LHG submits that capital expenditure should not be regarded as an end in itself. Rather, each proposed investment should satisfy the established regulatory

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principles of prudence, efficiency and user benefit before the associated costs are permitted to be recovered from airport users through higher tariffs.

Accordingly, the Authority may consider the following principles while evaluating the proposed capital programme:

- Necessity: Capital expenditure should be supported by demonstrated operational requirements and realistic traffic forecasts rather than conservative assumptions or capacity buffers that may not materialise during the Control Period.
- Timing: Investments should be undertaken in accordance with actual demand growth. Premature investment increases financing costs and places an unnecessary tariff burden on current airport users.
- Efficiency: The scope and cost of each project should be benchmarked against comparable airport developments to ensure that airport users bear only efficient and prudent expenditure.
- User Benefit: Capital expenditure should deliver tangible improvements in operational efficiency, passenger processing, aircraft movement, safety or service quality. Infrastructure that does not provide measurable benefits during the Control Period should not result in immediate tariff increases.
- Cost Recovery: Consistent with internationally accepted economic regulatory principles, recovery of capital costs should commence only when the relevant assets are commissioned and available for use by airport users.

LHG respectfully requests the Authority to undertake a detailed assessment of the proposed capital expenditure programme and allow recovery through aeronautical charges only in respect of investments that are demonstrated to be necessary, efficiently incurred, commissioned within the relevant period and capable of delivering measurable operational benefits to airport users.

2. **Traffic Forecasts Must Be Realistic, Transparent and Aligned with Demonstrated International Demand**

   The traffic forecast forms the foundation of the proposed capital investment programme, the Regulatory Asset Base (RAB) and the Aggregate Revenue Requirement (ARR) for the Fourth Control Period. It therefore directly influences the level of aeronautical charges payable by airlines and passengers. As airport users ultimately bear the cost of these investments through regulated tariffs, it is imperative that the traffic forecasts underpinning

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the proposed capital programme are realistic, transparent, internally consistent and supported by robust evidence.

We recognise Hyderabad Airport's strong growth trajectory and supports investment in infrastructure that is aligned with actual demand. However, where traffic forecasts form the basis for substantial capital expenditure and corresponding tariff increases, the underlying assumptions must withstand rigorous regulatory scrutiny. Overly optimistic demand projections or inconsistencies in the methodology adopted may result in premature capacity creation, higher airport charges and an unnecessary financial burden on airlines without corresponding operational benefits.

Table 154 reflects the same passenger throughput submitted by the Airport Operator, yet applies different year-on-year growth rates. For FY27, the Airport Operator projects total passenger growth of 11.10%, whereas the Authority has adopted a growth rate of 14.80%, notwithstanding that both result in the same passenger throughput of 35.0 MPPA. Similar inconsistencies are observed in the domestic, international and cargo traffic projections. While this appears to arise from the Authority rebasing the growth rates using actual FY26 traffic rather than the projected base, the presentation creates uncertainty regarding the assumptions that underpin the proposed tariff determination. Given that these forecasts directly influence capital investment and tariff levels, greater clarity and consistency are essential.

International traffic growth assumptions warrant further justification: The projected 15.30% growth in international passenger traffic for FY27, together with the overall passenger growth of 14.80%, exceeds the post-pandemic three-year CAGR of 13.2% identified by the Authority in Paragraph 6.2.18 as the appropriate indicator of sustainable growth. Where the proposed forecast exceeds the benchmark relied upon by the Authority itself, the basis for adopting a higher growth trajectory should be clearly explained and supported by objective evidence.

The projected increase in international passenger traffic appears to rely significantly on the announced international expansion strategies of Indian carriers, including IndiGo's stated objective of increasing international operations to approximately 40% of its network by 2030 and Air India's ongoing fleet and network expansion programme. While these initiatives are positive developments for the aviation sector, they remain subject to significant commercial and operational uncertainties, including aircraft delivery schedules, global supply chain constraints, bilateral traffic rights, airport slot availability, geopolitical developments and evolving passenger demand. The

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Consultation Paper does not appear to demonstrate that these uncertainties have been adequately tested before being translated into substantial capital investment commitments.

International airlines operate in a highly competitive market where airport charges directly influence operating costs, route economics and decisions relating to network expansion and capacity deployment. Infrastructure developed on the basis of optimistic traffic assumptions should not result in international airlines bearing the financial consequences if the projected demand does not materialise within the relevant Control Period. Capital investment should therefore be phased in accordance with demonstrated demand, ensuring that airport users are required to pay only for infrastructure that is operationally necessary and available for use.

We respectfully requests the Authority to reconcile the inconsistencies between the growth rates and passenger volumes presented in Table 154, disclose the methodology adopted in rebasing the traffic forecasts, and evaluate the proposed international traffic projections under both base-case and conservative demand scenarios. The Authority is further requested to ensure that capital investment supporting international operations is phased in line with demonstrated demand so that international airlines are not required to finance infrastructure significantly ahead of its utilisation.

3. Users Should Receive the Capacity for Which They Are Paying

International airlines recognise the need to enhance terminal infrastructure to accommodate future growth and improve the passenger experience. The Consultation Paper identifies several operational constraints within Terminal 1, including pressures on international check-in, baggage reclaim, baggage make-up areas and kerbside operations, all of which have a direct bearing on operational efficiency, on-time performance and passenger service standards.

While we support investment to address these constraints, it is equally important that airport users receive the full operational and capacity benefits for which they are being asked to pay. Where a capital investment programme is funded through regulated airport charges, airlines have a legitimate expectation that the scope of the project and the capacity ultimately delivered will be consistent with what has been represented during the planning and stakeholder consultation process.

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International airlines are entitled to understand whether the proposed capital expenditure of ₹427 crore will deliver the expected operational improvements and capacity outcomes. Where airport charges are proposed to recover the cost of major capital investments, the Consultation Paper should clearly explain the basis of the projected capacity, the scope of the project and whether the estimated project cost remains proportionate to the operational benefits expected to be delivered.

We respectfully requests the Authority to clarify the basis on which the projected terminal capacity and the associated capital expenditure of ₹427 crore have been determined, and to confirm that the proposed investment represents an efficient, prudent and proportionate use of capital. The Authority is further requested to ensure that only capital expenditure demonstrably necessary to deliver measurable operational benefits to international airlines is permitted to be recovered through aeronautical tariffs.

4. Cost Recovery Must Commence Only When Facilities Become Operational

We supports the Authority's proposal under Paragraphs 14.3.1 to 14.3.3 to adopt the Incremental ARR Approach for identified high-capex projects. This approach appropriately reflects the internationally recognised user-pay principle, ensuring that international airlines bear the cost of airport infrastructure only when the relevant facilities are commissioned, operational and available for use. It also promotes regulatory accountability by aligning tariff recovery with the actual availability of infrastructure.

As noted by the Authority in Paragraph 14.3.1 and Table 229, the Northern Runway and Associated Airside Works (aeronautical capital additions of ₹4,585.49 crore) and the Northern Precinct Development – Landside Works, including the Northern Passenger Terminal (aeronautical capital additions of ₹5,328.45 crore), together account for almost 79% of the overall capital additions proposed for the Fourth Control Period and are expected to be capitalised in FY 2029-30.

We agree with the Authority's observation that recovering depreciation and return on these assets before they become operational would not be consistent with the fundamental user-pay principle. International airlines should not be required to bear the cost of infrastructure before it is available for operational use and capable of delivering measurable service benefits.

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We also support the Authority's view that linking tariff recovery to the actual commissioning of assets promotes regulatory accountability, encourages timely project execution and ensures a closer alignment between airport charges and the delivery of operational infrastructure. Cost of assetsre should enter the RAB only after:

- completion,
- capitalization,
- commissioning,
- demonstration of operational benefit.

We respectfully request the Authority to retain the proposed Incremental ARR Approach in the Final Tariff Order and apply it to all identified high-capex projects so that recovery of depreciation, return on RAB and other associated costs commences only upon the actual commissioning and operational availability of the relevant assets.

5. International and Cargo Readiness Must Match Hyderabad's Growth Ambitions

We support Hyderabad's vision of becoming a leading international gateway. However, airport expansion should not focus solely on increasing terminal capacity. Equal emphasis must be placed on developing infrastructure essential for efficient international and cargo operations, including adequate contact gates, Code E stands, apron capacity, turnaround efficiency and cargo facilities.

While the Consultation Paper addresses terminal constraints, the proposed enhancement of airside infrastructure appears relatively limited when viewed against the projected growth in international traffic. Investment should therefore ensure balanced development of terminal, airside and cargo infrastructure to support long-haul operations and enhance Hyderabad's competitiveness as an international hub.

The Authority is respectfully requested to satisfy itself that the proposed investment provides adequate international, widebody and cargo infrastructure commensurate with the projected traffic growth, and that tariff recovery reflects balanced investment across terminal, airside and cargo facilities rather than terminal expansion alone.

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6. **Digitisation Expenditure Must Be Transparent, Justified and Outcome-Oriented**

   We support the investment in digital technologies that improve airport operations and passenger experience. However, the proposed digitisation expenditure of ₹260 crore represents a significant new cost element with no historical baseline. As noted by the Authority, GHIAL's initial submission lacked sufficient granularity to enable a meaningful regulatory assessment.

   While the indicative use cases outlined by GHIAL are progressive, the proposed expenditure should be supported by a detailed cost-benefit analysis demonstrating how each initiative will deliver measurable improvements in passenger processing, baggage handling, operational efficiency, turnaround performance and service quality. Benchmarking against other airports, by itself, should not be the sole basis for permitting cost recovery through aeronautical tariffs.

   The Authority is respectfully requested to permit recovery of digitisation expenditure only to the extent that the Airport Operator demonstrates the necessity, reasonableness and measurable operational benefits of each proposed initiative, supported by detailed project-wise justification and appropriate regulatory scrutiny.

   This approach aligns with AERA's own observation that the proposed expenditure requires greater detail before it can be appropriately assessed. It also reinforces the regulatory principle that airport users should bear only efficient and demonstrably beneficial costs.

7. **Major Capacity Expansion Should Be Triggered by Demonstrated Operational Need**

   We support long-term expansion of Hyderabad Airport. However, major investments such as the Northern Runway should be phased based on demonstrated operational need and actual traffic growth, rather than conservative planning assumptions. Airport users should not bear the cost of infrastructure significantly ahead of its utilisation.

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8. The Allowed Return Must Reflect the Airport Operator's Actual Regulatory Risk

The proposed WACC should reflect the Airport Operator's actual risk profile. Given the regulatory true-up mechanisms and the relatively low demand and revenue risk under the AERA framework, the allowed return should be calibrated to ensure that airport users pay a fair and proportionate return on capital.

9. Project Management and Soft Costs Must Be Independently Benchmarked

We welcome the Authority's reduction of the proposed soft cost allowance. However, design, consultancy and programme management costs should be independently benchmarked against comparable airport projects to ensure that only efficient and reasonable expenditure is recovered through aeronautical tariffs.

10. Tariff Recovery Should Be Based on Achievable Project Delivery Timelines

Given the scale of the proposed expansion programme, project delivery timelines should be independently validated. Tariff recovery should remain linked to the actual commissioning of infrastructure so that airport users are not required to finance assets that are delayed or not yet operational.

Lufthansa Group supports the continued growth of Hyderabad Airport and recognises the importance of timely investment in infrastructure to meet future demand. However, airport users should bear costs only for infrastructure that is efficient, necessary, commissioned and available for use. The timing of cost recovery must remain aligned with actual demand and the availability of facilities, with appropriate safeguards against premature cost recovery, project delays, scope changes and inefficient expenditure.

We respectfully submit that affordability, realistic traffic forecasts, prudent capital expenditure, balanced investment in terminal, airside and cargo infrastructure, and demonstrable operational benefits should remain central to the Authority's determination. We welcome the Authority's adoption of the Incremental ARR approach and requests that the above submissions be duly considered while finalising the Tariff Order for the Fourth Control Period.

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11. Additional Regulatory Comments on the Authority's Proposals

(a) True-up of Over-Recovery and Under-Recovery

Lufthansa Group submits that any over-recovery of aeronautical revenues should be returned to airport users at the earliest opportunity through appropriate tariff adjustments. Conversely, any under-recovery should be permitted only after the Authority is satisfied that the underlying costs were prudently incurred, efficient, and genuinely attributable to regulated aeronautical activities. Airport users should not bear the financial consequences of forecasting inaccuracies or inefficient expenditure.

Retaining surplus collections for extended periods effectively results in airlines and passengers financing the airport operator interest-free, contrary to the cost-plus regulatory framework. We therefore submit that suitable interest be considered where adjustment has been delayed.

(b) Operational Expenditure Should Continue to be Subject to Efficiency Review

We support the Authority's proposal to true-up Operation and Maintenance (O&M) expenditure based on actuals, subject to reasonableness and efficiency. We respectfully request the Authority to continue benchmarking operating costs against comparable airports and disallow expenditure that is avoidable, inefficient or does not contribute directly to airport operations and service delivery like penal interest, inefficient refinancing costs and avoidable finance expenses.

(c) **Maximisation of Non-Aeronautical Revenue**

Non-aeronautical revenue remains an important mechanism for mitigating the tariff burden on airlines and passengers. We request the Authority to ensure that all eligible commercial revenues are appropriately recognised and reflected in the tariff determination so that airport users receive the full benefit of such revenues through lower aeronautical charges.

(d) Stronger Link Between Tariffs and Service Quality

While we note the Authority's proposal not to make any adjustment to the Aggregate Revenue Requirement on account of Quality of Service during the Fourth Control Period, we respectfully submit that airport charges should increasingly reflect the quality of services delivered. Where service standards

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fall below prescribed levels, appropriate regulatory disincentives should be considered to ensure greater accountability and value for airport users.

(e) Financial Consequences for Project Delays

We welcome the Authority's proposal to make adjustments where approved capital projects are not completed in accordance with the approved schedule. However, given the significant impact of delayed infrastructure on airport users, Lufthansa Group submits that the proposed adjustment should provide a meaningful incentive for timely project execution and adequately protect users from paying for delayed or unavailable assets.The proposed 1% reduction for delayed capitalization is welcome. However, 1% appears insufficient to discourage project delays. Long project delays impose significant costs on airlines through congestion and reduced operational efficiency. The Authority may consider stronger financial disincentives where delays are attributable to the airport operator.

(f) Transparency in Tariff Determination

Given the complexity and financial significance of the tariff proposal, Lufthansa Group requests the Authority to ensure that sufficient time and complete supporting information are made available to stakeholders during tariff consultations. Transparent disclosure of assumptions, methodologies and supporting data will facilitate meaningful stakeholder participation and strengthen regulatory confidence.

Conclusion: Lufthansa Group respectfully submits that meaningful consultation with airlines should precede major capital investment decisions that have a material impact on airport tariffs. As the primary users funding airport infrastructure through regulated charges, airlines should have the opportunity to provide input on the necessity, timing and scope of such investments. The Authority should ensure that airport charges remain efficient, proportionate and internationally competitive.

As Rajiv Gandhi International Airport competes with major regional hubs for airlines, passengers and cargo, excessive airport charges can undermine route development, international connectivity, transit traffic, tourism and cargo growth, while increasing airline operating costs and ultimately passenger fares. The regulatory framework should therefore strike an appropriate balance between the airport's financial sustainability and the affordability and competitiveness of air services.

We also respectfully request the Authority to share the submissions received from other stakeholders, including the Airport Operators, to enable us to review the

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positions taken and provide informed and meaningful comments, consistent with the principles of transparency and an effective consultative process.

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