File: AERA/20010/Policy Matter/Dep/2015-16

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Airports Economic Regulatory Authority of India

In the matter of Determination of Useful life of Airport Assets

Amendment No. 01 to Order No. 35/ 2017-18

Dated: 09th April, 2018

AERA Building
Administrative Complex
Safdarjung Airport
New Delhi – 110 003

1. Order No. 35/ 2017-18 on Useful life of Assets

1.1 Airports Economic Regulatory Authority (AERA/ Authority) had issued Order No. 35/ 2017-18 (Order No. 35) in the manner of determination of Useful Life of Airport Assets as detailed in **Annexure I**. The order was to be incorporated and read as a part of the guidelines for tariff determination for Airport Operators issued by the Authority vide is Order No. 13/ 2010-11 dated 12th January 2011.

1.2 Mumbai International Airport Ltd. (MIAL) and some other airport operators have made certain suggestions to this order. Based on their representations it is considered necessary to issue certain clarifications and amendments as under:

2. Consideration of Extra Shift Depreciation on certain items of Plant & Machinery

2.1 Authority notes that Note 6 of Schedule II to Companies Act provides as follows:

> *"6. The useful lives of assets working on shift basis have been specified in the Schedule based on their single shift working. Except for assets in respect of which no extra shift depreciation is permitted (indicated by NESD in Part C above), if an asset is used for any time during the year for double shift, the depreciation will increase by 50% for that period and in case of the triple shift the depreciation shall be calculated on the basis of 100% for that period."*

2.2 The Authority also notes relevant sections of Accounting Standard AS 10 dealing with Property Plant & Equipment which also details about the depreciation.

2.3 The Authority has also noted the relevant sections of the Guidance Note on Accounting for depreciation in Companies Act in context of Schedule II to the Companies Act (Guidance Note) issued by the Institute of Chartered Accountants of India. These are reproduced in **Annexure II**.

2.4 From a combined reading of the Companies Act and accounting pronouncements, the Authority notes that:

2.4.1 Accounting Standard makes it imperative for an entity to determine useful life of assets considering various factors specified.

2.4.2 There are clear guidances on whether the Asset is to be classified as a Continuous Processing Plant and manner of considering extra shift depreciation to assets.

2.4.3 Should the useful life determined by the entity considering the above factors, be different from the prescribed rates as per Companies Act, appropriate disclosures should be made.

2.4.4 Technical justifications are needed to back the decisions of the Management.

2.5 The Authority notes that certain Plant & Machinery in certain very large Airports / Airports with higher volume of operations would need to be running continuously or run extra shifts. Accordingly, appropriate considerations as detailed in aforementioned pronouncements should be factored and given effect to.

2.6 The Authority's intent, in case of plant and machinery detailed in the Annexure to the order was to align with the pronouncements of the Companies Act. Accordingly, the Authority notes that other allied provisions and conditions should also be considered and complied with.

2.7 Hence, the Authority accordingly clarifies its decision on manner of considering useful lives for Plant & Machinery items as follows:

2.7.1 **Useful lives of Plant & Machinery is determined as 15 years. In case the airport operator wants the useful life to be lower due to extra shift operations, it will be considered based on technical justification to the satisfaction of the Authority.**

2.7.2 **Considerations of extra shift depreciation and other applicable requirements of law, if allowed by the Authority as above, shall be computed as per the prescriptions of the Companies Act and the Guidance Note of ICAI.**

3. Lease period to be considered for determining depreciation

3.1 The Authority notes that conditions of renewal and extension could vary across different airports based on the terms of Concession Agreement executed with Government of India. The Authority had proposed that the lease period to be considered should include the current period and the first extension which is *generally* at the option of the Airport Operator.

3.2 In order to bring in clarity and to consider the cases where the first extension is not automatically available, the Authority amends the notes to the Annexure as follows:

> ***"4. … For the purpose of identifying the balance useful life, balance period remaining out of the initial lease period plus the first extension at the option of the Operator should be considered. If the period of useful life of assets is considered differently, the Airport Operator shall document and provide the reasons/ justification and basis for the period considered in determining the useful life of assets for the purpose of tariff determination which shall be examined and considered by the Authority.***

4. Useful life for Flight Information System and AOCC

4.1 Authority notes that flight information system and AOCC are in the nature of IT assets and hence the useful life of these assets be considered as 6 years.

5. Order

5.1 In exercise of powers conferred by section 13 (a) of the AERA Act 2008, the Authority hereby amends Order Number 35/2017-18 dated 12th January, 2018 as under:

5.1.1 Note Number 10 be inserted in the Annexure stating that ***"For items in the above table where rates are prescribed as per Companies Act, provisions of Extra shift depreciation shall be as applicable under Companies Act, subject to its computation as per prescription of the Companies Act and Guidance note of ICAI".***

5.1.2 Note Number 4 to read as ***"Where assets are developed/ constructed/ put to use, they should be depreciated over the available lease period or the useful life prescribed, whichever is less. Value to be depreciated should be determined after reducing any asset realisation value that the Operator may get, when the lease is***

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surrendered. For the purpose of identifying the balance useful life, balance period remaining out of the initial lease period plus the first extension at the option of the Operator should be considered. If the period of useful life of assets is considered differently, the Airport Operator shall document and provide the reasons/ justification and the basis for the period considered in determining the useful life of assets for the purpose of tariff determination which shall be examined and considered by the Authority.

5.1.3 ***'Useful life' and 'Depreciation' rate for assets listed under Serial Number 20 in the Annexure to read as '06' and '16.67' respectively.***

5.1.4 ***This Order may be incorporated and read as a part of Order No. 13/ 2010-11 dated 12th January 2011.***

5.1.5 ***The Order amendments will be effective from 1st April 2018.***

5.2 **All other matters detailed in Order No. 35/ 2017-18 dated 12th January 2018 will continue to be applicable as stated in the said Order. Amended Annexure incorporating the above is as enclosed in Annexure III.**

By the Order of and in the Name of the Authority

(Puja Jindal)
Secretary

To

All Airport Operators at Major Airports (as per list attached).

Copy to:-

Secretary, Ministry of Civil Aviation, Rajiv Gandhi Bhawan, New Delhi – 110003 – For information.

LIST OF AIRPORT OPERATORS AT MAJOR AIRPORTS

1. **Dr. Guru Prasad Mahopatra,**
   IAS, Chairman,
   Airports Authority of India,
   Rajiv Gandhi Bhawan,
   New Delhi.

2. **Shri V.J. Kurian, IAS,**
   Managing Director,
   Cochin International Airport Pvt. Ltd. (CIAL),
   Ndedumbassery, Kochi Airport P.O.,
   Ernakulam – 683 111,
   Kerala.

3. **Shri K Narayana Rao,**
   Director,
   Delhi International Airport Pvt. Ltd. (DIAL),
   New Udan Bhawan, Opp. Terminal 3,
   IGI Airport,
   New Delhi – 110 037.

4. **Shri S.G.K Kishore,**
   Chief Executive Officer,
   GMR Hyderabad International Airport Pvt. Ltd. (HIAL),
   GMR Aero Towers, 4th Floor,
   Rajiv Gandhi International Airport,
   Shamshabad,
   Hyderabad – 500 409.

5. **Shri Sanjiv Bhargava,**
   Vice President – Regulatory,
   Mumbai International Airport Ltd (MIAL),
   CSI Airport, 1st floor Terminal 1B,
   Santacruz (E),
   Mumbai- 400 059

6. **Shri Hari K Marar,**
   Executive Director & President,
   Bangalore International Airport Pvt. Ltd. (BIAL),
   Alpha-2, Administration Block,
   Bengaluru International Airport,
   Devanahalli, Bangalore – 560 300.

7. **Shri Sunil Dutt,**
   Chief Executive Officer,
   Chandigarh International Airport Ltd.
   New Civil Air Terminal Village,
   Jureri, Mohali – 140306,
   Punjab.

8. **Shri Jayakrishnan Sivadasa Kurup,**
   Chief Financial Officer,
   Kannur International Airport Ltd.,
   "Parvathy", T.C. 36/1,
   N.H. Bypass, Chacka,
   Thiruvananthapuram, Kerala – 695024

9. **Shri Vijay Mulekar,**
   Senior Airport Director,
   MIHAN India Ltd.,
   Dr. Babasaheb Ambedkar International Airport,
   Nagpur Maharashtra 440005

Annexure - I

USEFUL LIFE OF ASSESTS
(Effective from 01.04.2018)

S. No.	Asset Category	Useful Life (in Yrs)	Deprecation Rate (%)	Remarks
1	Cost of Land Acquisition	-	No depreciation	To be added to Land cost in the Owners books
2	Land Development Cost			Own Land - To be added to Land cost Leased Land - Cost to be amortised over the lease period ***(See Note 6)***
3	Terminal Building (including VIP Terminal, Bus Terminal, Haj Terminal)	30/ 60	3.33/ 1.67	Either 30 years or 60 years as evaluated by the Airport Operator
4	Building In Operational Area	30/ 60	3.33/ 1.67	
5	Utility Building	30/ 60	3.33/ 1.67	
6	Commercial Building			Not Part of RAB. Depreciation can be accounted in books as per useful life determined by the Airport Operator
7	Cargo Complex	30/ 60	3.33/ 1.67	As per Companies Act
8	Residential Building	30/ 60	3.33/ 1.67	As per Companies Act
9	Main Access Roads, Roads in Operational area, Boundary wall, Security fencing	05/ 10	20/ 10	As per Companies Act
10	Baggage Handling System/ Escalators/ Elevators/ Travellite/ HVAC Equipments/ Cargo ASRS / ETV Equipment	15	6.67	As per Companies Act
11	X-Ray Machine, RT Set, DFMD, HHMD, Security Equipment	15	6.67	As per Companies Act
12	Office Equipment	05	20	As per Companies Act
13	Furniture & Fixtures - Other than trolleys	7	14.29	
14	Furniture & Fixtures - Trolleys	3	33.33	
15	Cargo Equipment, Dollies, PPT	15	6.67	As per Companies Act
16	Computers - End User Devices	3	33.33	For items as defined under Companies Act
17	Computers - Servers and Networks	06	16.67	As per Companies Act
18	CUTE Equipment	06	16.67	
19	Electrical Installation and Equipments - Electrical fittings, including Runway lighting system Gen-set/ Power Equipment	10	10	As per Companies Act
20	Flight Information System, AOCC Equipment	10	10	As per Companies Act
21	Light Motor Vehicles and Heavy Motor Vehicles	08	12.50	As per Companies Act
22	Crash Fire Tenders, Other Fire Equipment including Pumps, Sprinkers	15	6.67	As per Companies Act
23	Intangible assets - Computer Software			As per Useful lifes estimated by the Airport Operator supported by Technical Justifications

Order No. 35/2017-18

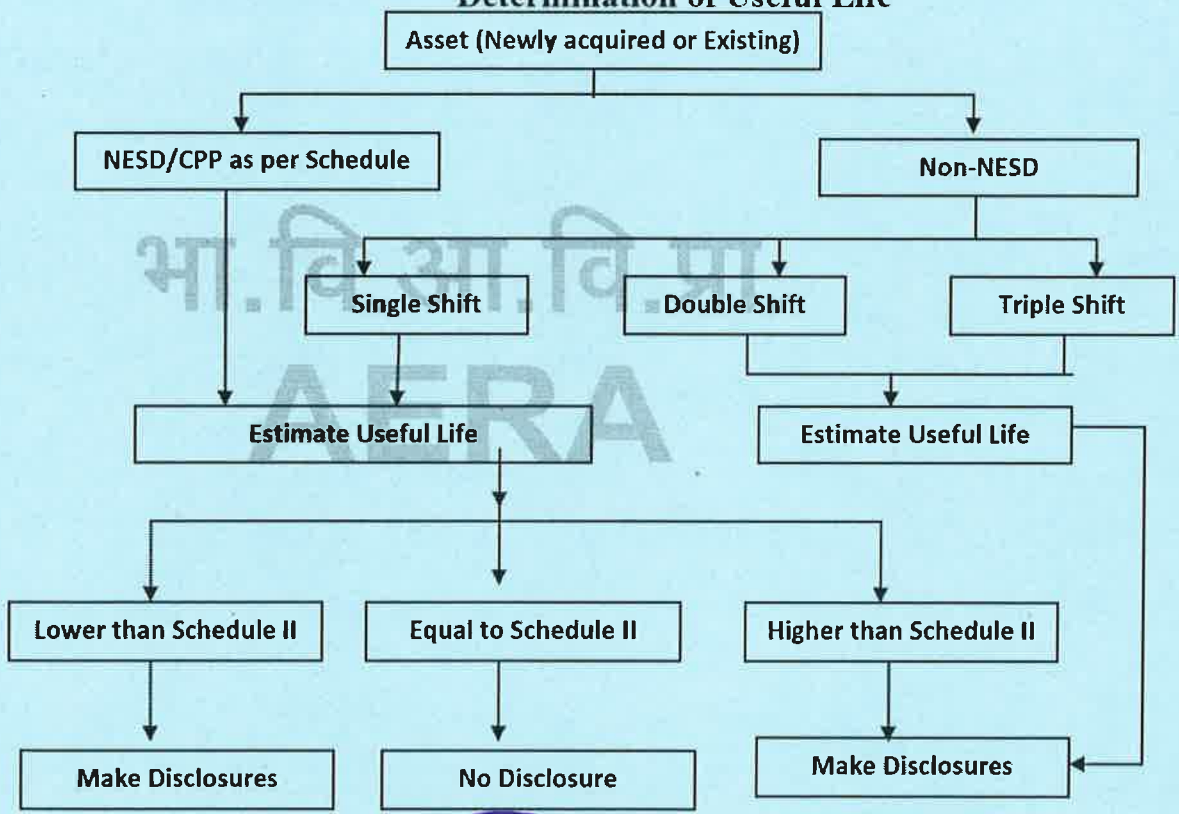
24	Runway, Taxiway, Apron	30	3.33	**Extension of Runway** Cost to be kept separately. Depreciation to be charged on the useful life of the extended area. **Upgradation of the Runway** : The cost should be depreciated over the balance period of the useful life of the existing runway. **Resurfacing & Runway:** The cost of resurfacing & runway leading to restoration of original PCN value would be amortized over 05 years for the purpose of Tariff computations, while accounting of such costs could be done on the basis of applicable accounting principles and standards. ***(Also Refer Note 5)***
25	Hanger	30/ 60	3.33/ 1.67	As per Companies Act

Notes:	
1	The above rates shall be effective from Accounting periods commencing on / after 1st April 2018
2	From the date this Schedule comes into effect, the book value of the asset as on that date (a) shall be depreciated over the remaining useful life of the asset as per thisSchedule; (b) after retaining the residual value, shall be recognised in the opening balance of retained earnings where the remaining useful life of an asset is nil.
3	Useful life specified is for whole of the asset. Where cost of a part of the asset is significant to total cost of the asset and useful life of that part is different from the useful life of the remaining asset, useful life of that significant part shall be determined separately.
4	Where assets are developed/ constructed/ put to use, they should be depreciated over the available lease period or the useful life prescribed, whichever is less. Value to be depreciated should be determined after reducing any asset realisation value that the Operator may get, when the lease is surrendered. For the purpose of identifying the balance useful life, balance period remaining out of the initial lease period plus the first extension at the option of the Operator should be considered, unless confirmed decision for non-renewal of lease is taken and recorded by the Airport Operator.
5	Runway/ Taxiway - If there is a different rate adopted by the Airport Operator, between 20 to 30 years, the same should be justified and backed up by suitable technical certification which will be critically examined by the Authority and a view taken on the same.
6	Land Development Costs - Separate cost may not be available in the financial records, for all such past works carried out in the past which have been already capitalised as of the date of the Order and hence this will be applicable for all capitalisations to be done from the effective date of this Order.
7	Specific assets, other than those listed above, could be created in different airports, based on the specific requirements. Such specific assets would have to be individually evaluated technically for its useful life and depreciated for which technical justification should be submitted to the Authority.
8	For assets not forming part of RAB, depreciation shall be charged based on Companies Act/ Technical evaluation of useful lives
9	The Depreciation rate shall be applied on Straight Line Method.

Annexure II - Extract of Guidance Note on "Accounting for Depreciation in companies in the context of Schedule II to the Companies Act, 2013"

"...The process of determination of useful life is explained in the chart below. A company has to determine the useful life at the beginning of the year for all fixed assets, existing as at the end of the immediately preceding period and for newly acquired assets, as and when acquired. All fixed assets existing at the beginning of the year should be classified into assets for which no extra shift depreciation is applicable which would include continuous process plant (CPP) and assets for which extra shift depreciation applies. Of the assets for which extra shift depreciation applies, assets which are going to be used on single shift, double shift or triple shift are segregated. This segregation is required as the extra shift depreciation is applicable only to those assets whose useful life is determined on single shift basis. After segregation, the remaining useful life of the asset is estimated. A company recognises depreciation expense based on the useful life estimated by the management. Where the useful life estimated by the management is different from that specified by Schedule II, the same is disclosed in notes..."

Determination of Useful Life



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Continuous Process Plant

(CPP)

16. Note 8 to Schedule II defines the expression 'Continues Process Plant' as:

"Continuous process plant" means a plant which is required and designed to operate for twenty-four hours a day.

17. The words "required and designed to operate twenty-four hours a day" are very significant and should be interpreted with reference to the inherent technical nature of the plant, i.e., the technical design of a CPP is such that there is a requirement to run it continuously for twenty-four hours a day. If it is not so run, there are significant shut down and/or start-up costs. If such a plant is shut-down, there may be significant spoilage of materials-in process /some damage to the plant itself/significant energy loss. It is, however, possible that due to various reasons, e.g., lack of demand, maintenance etc., such a plant may be shut down for some time. The shutdown does not change the inherent technical nature of the plant. For instance, a blast furnace which is required and designed to operate twenty-four hours a day, may be shut down due for various reasons;

it would still be considered as a CPP and useful life as estimated would be applicable for providing depreciation.

18. There can be certain plants which though may work twenty-four hours a day, yet their technical design is not such that they have to be operated twenty-four hours a day, e.g., a textile weaving mill. In such cases, depreciation to be charged would be on the basis of estimated useful life.

19. A CPP is distinct from the repetitive process plant or assembly-line type plants. These plants are not CPP since such plants do not involve significant shut-down and/or start-up costs and are not technically required and designed to operate twenty-four hours a day, e.g., an automobile manufacturing plant.

20. It is noted that Schedule XIV, inter alia, specified the general rates of 15.28% under Written Down Value method (WDV) and 5.33% under Straight Line Method (SLM) of depreciation for CPP, other than those for which special rates had been prescribed. In other words, as per the depreciation rates provided under Schedule XIV for the CPP, the useful life was 20 years (approx). However, Schedule II indicates useful life of 25 years for CPP, other than those for which special rates *have been prescribed in Schedule II. The principle of estimation of useful life as explained in paragraph 12 of this Guidance Note will also apply to CPP.*

...

24. It is noted that extra shift depreciation does not apply to CPP and the assets which have been marked as No Extra Shift Depreciation (NESD) under Schedule II. The concept of extra shift depreciation applies only to those assets for which the useful life has been estimated on single shift basis at the beginning of the year.

25. Where a company, which estimated the useful life of an asset on single shift basis at the beginning of the year, used the asset on double or triple shifts during the year, the depreciation expense should be increased by 50% or 100% as the case may be for that period. Further, for such asset/s, the company at the beginning of the next year should determine whether the asset used in extra shift during the past year was on sporadic basis and is expected to be used on sporadic basis in future also. In such a case, the useful life to be on single shift basis and if in future the asset is used on double or triple shift then as in the past, the depreciation expense for the double or triple shift should be increased by 50% or 100% as the case may be for the period of use. In case the company estimates that the use of the asset for extra shift would not be on sporadic basis i.e. the extra shift working for the asset would be on regular or continuous basis, it should reassess its useful life considering its use on extra shift basis. The reassessed useful life should then be used for the purpose of charging depreciation expense henceforth.

26. For assets which are not marked as NESD under Schedule II and for which the useful life has been estimated on double/triple shift basis at the beginning of the year, the concept of extra shift deprecation will not apply. For such assets, a company should consider whether there is any change in circumstances on which the useful life of asset was based or any new developments have taken place which may have impact on the estimated useful life of the asset. If there is no such indication, the company should continue to depreciate such assets on the basis of previous estimates. If there is any such indication, the company should reassess the remaining useful life of the assets on the basis of changed circumstances or new developments, e.g., use of the asset on single shift basis in future.

...

63. Apart from the disclosures required under the accounting standards, Schedule II requires disclosure of useful life and/or residual value, if they are different from those specified under that Schedule. In this regard, following disclosures should be made:

i. Disclosure of assets along with their useful lives where different from those specified under Schedule II including where the useful life estimated as per double/triple shift is different from that as would be estimated on the basis of increase in depreciation by 50% or 100% in case of double shift and triple shift respectively of single shift based depreciation.

ii. The fact that the said useful lives/residual values are supported by technical advice..."

Annexure - III

Useful life and Depreciation rates | **Effective Date: 1st April 2018**

S. No.	Asset Category	Useful Life (in Yrs)	Deprecation Rate (%)	Remarks
1	Cost of Land Acquisition	-	No depreciation	To be added to Land cost in the Owners books
2	Land Development Cost			Own Land - To be added to Land cost Leased Land - Cost to be amortised over the lease period. ***(Also refer Note 6)***
3	Terminal Building (including VIP Terminal, Bus Terminal, Haj Terminal)	30/ 60	3.33/ 1.67	Either 30 years or 60 years as evaluated by the Airport Operator
4	Building In Operational Area	30/ 60	3.33/ 1.67	
5	Utility Building	30/ 60	3.33/ 1.67	
6	Commercial Building			Not Part of RAB. Depreciation can be accounted in books as per useful life determined by the Airport Operator
7	Cargo Complex	30/ 60	3.33/ 1.67	
8	Residential Building	30/ 60	3.33/ 1.67	
9	Main Access Roads, Roads in Operational area, Boundary wall,	05/ 10	20/ 10	As per Companies Act
10	Baggage Handling System/ Escalators/ Elevators/ Travellite/ HVAC Equipments/ Cargo ASRS / ETV Equipment	15	6.67	As per Companies Act
11	X-Ray Machine, RT Set, DFMD, HHMD, Security Equipment	15	6.67	As per Companies Act
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24	Runway, Taxiway, Apron	30	3.33	**Extension of Runway** Cost to be kept separately. Depreciation to be charged on the useful life of the extended area. **Upgradation of the Runway** : The cost should be depreciated over the balance period of the useful life of the existing runway. **Resurfacing & Runway:** The cost of resurfacing & runway leading to restoration of original PCN value would be amortized over 05 years for the purpose of Tariff computations, while accounting of such costs could be done on the basis of applicable accounting principles and standards. ***(Also Refer Note 5)***
25	Hanger	30/ 60	3.33/ 1.67	

Notes:

1	The above rates shall be effective from Accounting periods commencing on / after 1st April 2018
2	From the date this Schedule comes into effect, the carrying amount of the asset ason that date (a) shall be depreciated over the remaining useful life of the asset as per thisSchedule; (b) after retaining the residual value, shall be recognised in the opening balance of retained earnings where the remaining useful life of an asset is nil.
3	Useful life specified is for whole of the asset. Where costof a part of the asset is significant to total cost of the asset and useful life of that part is different from the useful life of the remaining asset, useful life of that significant part shall bedetermined separately.
4	Where assets are developed/ constructed/ put to use, they should be depreciated over the available lease period or the useful life prescribed, whichever is less. Value to be depreciated should be determined after reducing any asset realisation value that the Operator may get, when the lease is surrendered. For the purpose of identifying the balance useful life, balance period remaining out of the initial lease period plus the first extension at the option of the Operator should be considered. If the period of useful life of assets is considered differently, the Airport Operator shall document and provide the reasons / justification and the basis for the period considered in determining the useful life of assets for the purpose of tariff determination which shall be examined and considered by the Authority.
5	Runway/ Taxiway - If there is a different rate adopted by the Airport Operator, between 20 to 30 years, the same should be justified and backed up by suitable technical certification which will be critically examined by the Authority and a view taken on the same.
6	Land Development Costs - Separate cost may not be available in the financial records, for all such past works carried out in the past which have been already capitalised as of the date of the Order and hence this will be applicable for all capitalisations to be done from the effective date of this Order.
7	Specific assets, other than those listed above, could be created in different airports, based on the specific requirements. Such specific assets would have to be individually evaluated technically for its useful life and depreciated for which technical justification should be submitted to the Authority.
8	For assets not forming part of RAB, depreciation shall be charged based on Companies Act/ Technical evaluation of useful lives
9	The depreciation rate shall be applied on Straight Line method
10	For items in the above table where rates are prescribed as per Companies Act, provisions of Extra shift depreciation shall be as applicable under Companies Act, subject to computation as per prescription of the Companies Act and Guidance note of ICAI.