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Fraport

Fraport AG · 60547 Frankfurt (regular mail) · 60549 Frankfurt (parcel post)

Global Investments and Management

Capt. Kapil Chaudhary
Secretary
Airports Economic Regulatory Authority of India
AERA Building,
Administrative Complex,
Safdarjung Airport,
New Delhi- 110003
India

Fax -59866
e-mail m.engler@fraport.de

Your ref.

Our ref.

Telephone +49 69 690-21487

Date 14.02.2012

Fraport AG
Frankfurt Airport
Services Worldwide
60547 Frankfurt/Main
Fed. Rep. of Germany
Telephone +49 69 690-0
Fax +49 69 690-70081
info@fraport.de
www.fraport.de

Determination of Aeronautical Tariff in respect of IGI Airport, New Delhi Consultation Paper No.32/2011-12

Dear Sir,

We refer to Airports Economic Regulatory Authority of India's (AERA) Consultation Paper No. 32/2011-12 dated 3rd January 2012 on "Determination of Aeronautical Tariff in respect of IGI Airport, New Delhi for the 1st Regulatory Period (01.04.2009 – 31.03.2014)".

Fraport AG is a shareholder of Delhi International Airport Private Limited (DIAL) and is also appointed as the Airport Operator for IGI Airport.

With respect to the abovementioned Consultation Paper we have the following comments.

1. Traffic trends

During the last decade, India saw exceptionally strong growth in air traffic. IGI Airport in Delhi participated at this development with a two-digit compound annual growth rate (CAGR) for passenger traffic during the last ten years at IGI Airport. One special growth driver during this period was the opening of Terminal 3 at IGI Airport. Before the opening of the new terminal, demand for passenger handling capacity at IGI airport could not be accommodated adequately resulting in significant congestion of much higher demand than could be accommodated. This congestion was removed with the opening of Terminal 3 that allowed passenger traffic to jump to a new level thanks to the enlarged passenger handling capacity. Following this one-off catch-up effect, we would assume the traffic growth to return to a more usual and flatter growth path.

Given the current global economic situation, we would further expect the air traffic growth to slow down in the near future. In this respect we tend to share the view of IATA (International Air Transport Association), which expects a weakening of the global air freight and air travel markets in the near future. Within the present difficult global economic environment (India's economic growth forecast was also recently revised downwards) the impact of falling GDP growth may distort the growth of the Indian aviation industry. Cargo, which is a lead indicator, has already dropped to a low single digits growth rate and is now heading towards negative growth.

Summing up, we would expect the traffic growth at IGI Airport in the next years to continue albeit at a much lower level than the CAGR of the last decade.

Therefore we would ask AERA to reconsider the traffic forecast adopted in the Consultation Paper keeping the above factors in mind.

2. Trends in costs and results in the area relevant to charges

2.1 General principles of tariff fixation

The principles of tariff fixation for IGI Airport are laid down in the concession agreements entered into by DIAL and the Government of India.

Any regulatory framework developed after the execution of the agreements should refrain from contradicting or overriding the provisions of the agreements which were the basis of the PPP.

Any such move would create ambiguity for all private airport operators and would foster an unhealthy environment of uncertainty and doubt which may well transcend beyond the airport infrastructure sector.

Moreover, this would also hamper the interest in participation of international operators in future airport development or other large scale infrastructure projects. In this respect it is important that any action by the regulator should be aimed at boosting confidence of the investor community in order to ensure healthy participation towards achieving the 12th five year plan investment target.

2.2 Airport Expansion

Since DIAL was awarded the Operations, Management and Development Agreement (OMDA) for IGI Airport, the company has successfully implemented an ambitious airport expansion programme, including the construction of one of the world's biggest airport terminals, and has invested and continues to invest huge amounts in new airport infrastructure. The foundation stone of the new ATC tower at IGI Airport that was laid on 11th January 2012 is a case in point.

The whole investment programme follows public interest and is driven by airline and passenger demand, giving airlines the opportunity to grow and to further expand their business. Furthermore, IGIA now ranks among the best in the world on airport service quality parameters.

DIAL now provides new high class airport infrastructure and services for the benefit of airlines and passengers using IGI Airport. At the same time aeronautical charges have remained unchanged over many years with only one 10% increase in 2009 which did not even partially cover the relatively high rate of inflation India has been subjected to.

Considering India's inflation rate (expressed by the Consumer Price Index or CPI), the tariffs should have been doubled from the year 2000 until 2011 only to ensure an inflationary adjustment without taking into account the massive investments and the consequential improvements for airlines and passengers using the airport.

As of now, all stakeholders benefit from the investments made by DIAL in the last years, but DIAL itself suffers huge losses and the net worth of the company continues to erode year after year.

2.3 Return on Equity

It should be noted that India's country risk profile and airport sector specific risk are considered to be comparatively high compared with other markets. As a result any proposed cost of equity needs to reflect these elevated risk profiles in order to attract investment.

According to the concession agreements, the airport tariffs shall generate sufficient revenue to cover efficient operating costs, obtain the return of capital over the project life and achieve a reasonable return on investment.

Our investment DIAL has been based on this premise.

As under the current tariff structure, the net worth of DIAL has been increasingly eroding from year to year, which presents a point of extreme concern for us regarding our investment in DIAL as well as for potential future investments in India.

It is our firm view that the tariff increase must honour the principles as laid down in the concession agreements and ensure viable operations of DIAL as well as a reasonable return on investment for the investors.

This is a very important issue not only for us but for all private airport operators and investors. Unless satisfactorily addressed, investors in airport and other large scale infrastructure projects may be deterred from putting their money into India.

It is estimated that India will be the third largest aviation market in the world in the next decade. This continuing growth will certainly require further major investments in the future, most of them are expected to be contributed by the private sector. In order to attract private investors, the regulator must ensure viable operations of the regulated entities.

2.3.1 Quasi Equity

On the subject of treatment of Refundable Security Deposits (RSDs) as Quasi Equity, the State Support Agreement (SSA) entered into by DIAL provides for a reasonable return on any investment made in the project.

We would like to mention that Refundable Security Deposits (RSD) were introduced as a part of the project cost funding right from when the first estimates of sources of funding were made. The JVC had to resort to this means of funding due to constraints in raising further equity or debt.

In March 2008, we were made to sign an undertaking from the lenders that any shortfall in the deposits will be made up by infusing additional equity. There cannot be a stronger proof of the fact that these deposits are akin to equity.

It is important to mention here that the equity partners are nowhere obliged to reinvest the returns / funds accrued from non-transfer assets into the airport project itself. The JVC could have utilized the same funds in other ventures or to pay-out dividends to the consortium members, who in turn could have used it for different investment opportunities.

It is only fair that the opportunity cost of the productive deployment of these funds elsewhere should be provided and hence, in our view, should be treated as Quasi Equity eligible for a Return on Equity (RoE).

Giving zero returns in fact is sending signals that in future RSDs should not be used for funding future Capex and rather rely upon debt or equity. This itself will be counterproductive.

In the light of the above arguments, we hope the Regulator will take a pro-development view and nurture a favourable investment climate for increased participation by international airport operators and investors in the future development of the Indian aviation market. The regulator has a critical role to play in facilitating the development towards India becoming the third largest aviation market in the world in the next decade. Fraport would like to continue playing a key role in this development but will be guided by economic viability and the attractiveness of opportunities presenting themselves across the world.

Sincerely yours,

Fraport AG

Christoph Nanke

Matthias Engler