FAIRFAX INDIA
HOLDINGS CORPORATION

10th July 2026

Shri S G K Rahate
The Chairman,
Airports Economic Regulatory Authority of India
AERA Building, Administrative Complex,
Safdarjung Airport, New Delhi -110 003.

Sub: Response to Consultation Paper issued by AERA for 4th Control Period

Ref: Consultation Paper No 01/2026-27 published by AERA on 12th June 2026

Respected Sir,

This has reference to the Consultation Paper No. 01/2026-27 published by the Airport Economic Regulatory Authority (AERA) for the 4th Control Period for Kempegowda International Airport Bengaluru (KIAB) on 12th June 2026.

Fairfax India Holdings Mauritius (FIHM), together with its Indian subsidiary Anchorage Infrastructure Investments Holdings Limited (AIIHL), are the majority shareholders of Bangalore International Airport Limited (BIAL). As one of the largest long-term foreign investors in India's airport sector, we have invested with the conviction that India's aviation market represents one of the world's most compelling long-term infrastructure opportunities.

Over the past decade, India's aviation sector has witnessed extraordinary growth, supported by progressive public policy, sustained economic expansion and significant investment in airport infrastructure. Kempegowda International Airport Bengaluru (KIAB) exemplifies this success. Today, it is India's third busiest airport and has recently become the country's second busiest domestic airport. With Bengaluru continuing to strengthen its position as India's technology and innovation capital, passenger demand is expected to exceed 70 million annually by FY2031.

To support this growth responsibly, BIAL expects to invest approximately USD 1.4 billion over the next four years. This programme has been developed to ensure that airport capacity, operational resilience, passenger experience and safety standards continue to keep pace with one of the fastest-growing aviation markets globally.

We appreciate the extensive effort undertaken by the Authority in preparing the Consultation Paper and recognise the challenging responsibility entrusted to AERA of balancing the interests of passengers, airlines and airport operators. We also acknowledge the Authority's continued commitment to ensuring that airport users are protected from inefficient expenditure.

At the same time, we respectfully believe that economic regulation must equally safeguard against the risks of under-investment in critical infrastructure. Airports are long-life strategic assets whose planning horizons extend well beyond a single regulatory control period. Decisions that reduce or defer efficient investment may moderate tariffs in the short term but can ultimately result in higher lifecycle costs, operational disruption and constrained capacity, all of which are borne by the very users that regulation seeks to protect.

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Against this backdrop, we wish to submit the following observations for the Authority's consideration while issuing the Final Tariff Order:

Observations on the Consultation Paper

1) Introduction of the Incremental ARR approach

In previous control periods (for KIAB and all other major airports where AERA has determined tariff), the approved revenue requirement was recovered through a levelized tariff structure over the five-year control period.

The existing levelized tariff methodology has served the sector well over successive control periods. It enables recovery of the approved revenue requirement over the five-year control period while ensuring tariff stability and avoiding sudden tariff shocks for airlines and passengers.

The Authority proposes to migrate to a "**User pay principle"** approach with BIAL being the first airport where this approach is being applied. We understand that this matter has been brought to the attention of the authority in the recently held consultation meetings of Bangalore International Airport Limited and Hyderabad International Airport Limited.

The "Incremental ARR" approach essentially defers the recovery of tariff on account of new assets and as is well understood, will lead to a scenario where there are sudden spikes in tariffs on account of capitalization of a large capital asset such as a new terminal or runway. The approach also creates a mismatch in cash flows as the internal accruals would no longer be available for redeployment into the asset. We would therefore request the authority to undertake a wider consultation for the incremental ARR approach and not implement it as part of BIAL's tariff order.

Should that not be possible, Fairfax requests the Authority to consider determining and publishing the tariff card for all 5 years (including the impact of assets considered as part of Incremental tariff approach) as part of the tariff order. It will help bring greater clarity and certainty of charges to airlines, passengers as well as partly assuage concerns of lenders and investors.

2) Observations on Personnel Cost

KIAB is amongst the fastest-growing airports globally and having been recognised for operational excellence, including being home to India's only 5-Star Skytrax rated terminal and earning repeated recognition amongst the world's best airports for passenger experience by Airports Council International. These achievements are made possible by a highly capable workforce that has not only delivered world-class infrastructure but continues to operate it to high standards of safety, efficiency and customer service.

As the majority shareholder, we place significant emphasis on prudent cost management and operational efficiency. However, our experience across infrastructure investments has consistently demonstrated that enduring value is created by investing in the capabilities that underpin safe, efficient and resilient operations. In our view, attracting and retaining high-quality talent is fundamental to sustaining BIAL's operational excellence and strong financial performance. The airport's ability to consistently grow both aeronautical concession and non-aeronautical revenues is intrinsically linked to the quality of its infrastructure, passenger experience and regulatory goals, as it ultimately moderates the level of aeronautical charges borne by passengers and airlines.

Fairfax also submits that personnel cost comparisons should be undertaken on a like-for-like basis. Unlike several airport operators that allocate a portion of corporate or shared service costs to the airport entity, BIAL operates without such corporate allocations, with these functions being performed directly by its own employees. Accordingly, we respectfully request the Authority to adjust for differences in operating models and undertake a like-for-like basis comparison which would demonstrate that BIAL's personnel costs are comparable with those of other leading private airports in India.

3) Approach to Non Aeronautical Revenues

We request the Authority to reconsider certain aspects of the proposed treatment of non-aeronautical revenues

First, the proposal to establish a minimum threshold for non-aeronautical revenues, while providing true-up only where actual revenues exceed that threshold, appears inconsistent with the long-standing regulatory recognition that these revenues are fundamentally linked to passenger traffic, a variable that is outside the airport operator's direct control. As a matter of fact, the ongoing geo political situation (which is still unfolding) has already impacted passenger traffic in FY27.

Secondly, we support BIAL's submissions regarding the continued inclusion of notional lease rentals relating to facilities occupied by Airports Authority of India under the existing CNS/ATM arrangements. In circumstances where no corresponding revenue can legally accrue to the airport operator, recognising notional income for tariff determination does not appear to reflect the underlying commercial reality.

Finally, we request the Authority to consider BIAL's revised projections relating to interest income in light of the substantial capital investment programme proposed during the control period and the associated funding requirements in combination with the Incremental ARR approach wherein ability to generate internal accruals will be constrained during the initial half of the consultation paper.

4) Determination of O&M costs for airport operations

Kempegowda International Airport has consistently been recognised amongst the highest-performing airports globally for operational efficiency, passenger experience and service quality. Maintaining these standards requires sustained investment in skilled personnel, operational capability, technology and maintenance.

While we appreciate the Authority's objective of ensuring efficient operating expenditure, we respectfully request that the proposed rationalisation of operating costs, including assumptions relating to newly commissioned assets, be reconsidered in light of BIAL's detailed submissions. Sustaining world-class airport operations requires an appropriate balance between cost efficiency and operational resilience.

5) **Capital investment programme - Stance adopted by the Authority towards some key projects forming part of the capital expenditure program** viz.,

The authority in its assessment has adopted the following stance towards the capital expenditure program proposed by BIAL:

1) The Authority has proposed rationalization of area for Phase 2 of Terminal 2 by about 27,000 sqm
2) The eastern connectivity tunnel proposed by BIAL has been excluded from the Regulated asset base suggesting that it should be funded by the state government
3) The Airport west metro station has been excluded from the Regulated asset base suggesting that there is no direct benefit to passengers and airlines

As long-term infrastructure investors, we view India as a market that has tremendous potential but has often failed to develop infrastructure ahead of demand. This approach has constrained the country's sustained economic growth and enhanced competitiveness.

We are concerned that the proposed rationalisation of critical airport infrastructure appears to place disproportionate emphasis on reducing near-term capital expenditure rather than ensuring that capacity is developed efficiently to meet future demand. While such an approach may result in lower tariffs in the short term, it risks increasing lifecycle costs through deferred investments, operational disruption and more expensive future expansions.

In our experience across global infrastructure markets, the most successful regulatory frameworks encourage efficient investment that anticipates future requirements rather than responding only after capacity constraints emerge. Given that Bangalore International Airport is a strategic asset, we request the Authority to relook its stance.

6) **Treatment of MRO rentals as aeronautical**

The Authority's treatment of MRO revenues during the Third Control Period formed the basis of BIAL Board's decision to repurpose land originally intended for commercial real estate development towards MRO facilities, thereby supporting national aviation objectives and creating long-term ecosystem benefits. The proposal in the consultation paper to treat rental income from MRO as aeronautical alters the economic assumptions underpinning those decisions. We request the Authority to maintain consistency in established positions and continue treating income from MRO as non aeronautical.

Summary

India's airport sector has attracted significant long-term international investment because of the confidence investors have placed in the country's economic fundamentals, institutional framework and regulatory maturity. The principles established through this tariff determination will therefore be important not only for Bangalore International Airport but also for the continued attractiveness of India's airport sector as a destination for patient, long-term infrastructure capital.

As a long-term infrastructure investor, Fairfax attaches significant importance to the stability, transparency and predictability of the regulatory framework. Airport investments require substantial upfront capital commitments with investment horizons extending over several decades. Decisions to deploy such capital are made based on the expectation that regulatory principles will remain consistent, transparent and predictable over the life of these assets.

While we recognise that regulatory frameworks naturally evolve over time, frequent changes in tariff determination methodologies or departures from well-established regulatory principles without broad stakeholder consultation can create uncertainty for investors, lenders and other stakeholders. In this context, we respectfully request the Authority to continue applying time tested regulatory principles while finalising the Fourth Control Period tariff determination.

We respectfully request the Authority to consider the observations set out above, together with BIAL's detailed technical submissions, while finalising the tariff order for the Fourth Control Period.

We thank the Authority for providing stakeholders the opportunity to present their views and remain available should any further clarification be required.

Yours sincerely,

Gopalakrishnan Soundarajan

Chief Executive Officer – Fairfax India Holdings Corp.

On behalf of FIH Mauritius Investments Ltd and Anchorage Infrastructure Investments Holdings