KPMG

Now Boarding

Indian Airports 2006

AUDIT ▪ TAX ▪ ADVISORY

Contents

Foreword

The India story in the global economy has been about growth. In line with the growth of the economy the Indian aviation industry has also seen exciting growth in the recent past and has a promising future. The estimated total passenger throughput for all airports in India in 2005-06 grew to 68 millions from 40 million in 2000-01 and freight tonnage from 0.80 million to 1.40 million tons in the same period.

Other indicators point out that the number of trips per capita in India is 0.02, a number significantly below China (0.09 trips per capita) and dramatically below United States (2.2 trips per capita). This emphasizes the need for urgent modernization and development of Indian airports.

The Government is committed to revamping the airport sector and has undertaken a variety of measures. Earlier this year, the AAI has handed over Delhi and Mumbai airports to private sector consortiums under the Operations, Management and Development Agreement. The AAI also plans to develop and modernize 35 non-metro airports, with privatization for the city side development only.

While there is a marked improvement in the Indian airport sector there are still gaps and uncertainties to be addressed, keeping in view global benchmarks.

This white paper aims at providing a prudent insight into the opportunities, concerns, plans and achievements of the Indian Airpots privatisation era.

I hope you find the paper thought provoking.

Raajeev B Batra
Executive Director - Advisory Sevices
KPMG in India

Messages

The Indian economy today is witnessing an era of phenomenal growth, rapid modernisation and the emergence of a robust constitution for sustained development. Country's economic growth is supplemented by an increase in purchasing capacity and an increasingly mobile young middle class. Continuing with the economic upturn, the Indian aviation industry has also seen exciting growth in the recent past with a promising future. With estimated passenger traffic to reach 100 million in 2009-10 from 68 million in 2005-06, Indian airports are pitted to become the next generation of world class airports and facilities.

Statistics also suggest that the market will continue to grow at a rapid pace in the near future with domestic traffic in India expected to grow at a CAGR of 25percent p.a. and international traffic by 15percent p.a. over the next 5 years. These are exciting times for the Indian Aviation sector and the country is taking a number of significant steps to achieve the required airport infrastructure. While the airport sector is awaiting the New Civil Aviation Policy, the Government has taken strategic initiative to address airport infrastructure need by recently awarding concessions for two Greenfield and two Brownfield airports.

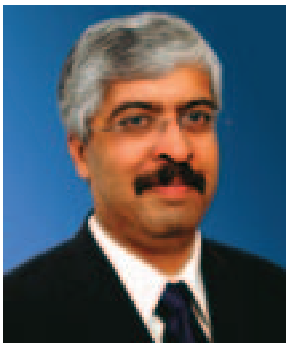
With the country preparing to host the 2010 commonwealth games, there is now an indispensable need to achieve rapid development for the airport sector within a strict time line; a challenge both the Indian Government and industry are confident of achieving.

KPMG is committed to the development of the airport sector around the world and specifically in India. Our areas of competence which have been built over many years include airport privatization planning, bid advisory, post transaction integration services, corporate management & governance systems and financial structuring.

The following report is an attempt to summarize the opportunities and challenges for modernization of Indian airports. I hope you find the study insightful and helpful in facilitating you with a veracious perspective on the Indian airport sector.

Pradip Kanakia
Head - Risk Advisory
KPMG in India

Messages



India has potential to move to a new GDP growth orbit of 10percent p.a. One of major constraining factors to achieving this growth rate on a sustained basis is the “infrastructure gap”. This infrastructure gap is costing the country at least 1.5-2percent growth in GDP per annum.

The investment required in India's infrastructure in the next 5 years is USD 320 billion. This implies an increasing role for private sector in transport infrastructure such as road, rail, airports and ports as well as other infrastructure including energy, telecom and urban infrastructure. In airports alone there is an investment need of over USD 9 billion over the next 5 years.

To attract active private sector participation there is clear need for a well designed and stable policy and regulatory environment, developing a critical mass of bankable projects and a few early success stories.

No sector reflects the dramatic transformational impact of selective private sector participation in infrastructure as telecom. Steady liberalisation under the telecom policy has turned India into one of the world's fastest growing telecom markets.

Such a transformation is possible even in the airport sector through appropriate mix of public and private sector investments. Some of the critical enabling requirements to make this happen include a new civil aviation policy, a clear and transparent long term privatisation policy as well as establishing an independent regulator for airports.

The KPMG whitepaper :Indian Airports 2006- reviews the current scenario in the airport sector and looks at opportunities and challenges going forward.

I hope you find this useful during your deliberations on Airport Development and Modernisation.

Arvind Mahajan
Executive Director and National Industry Director
(Infrastructure and Government)
KPMG in India

Indian Airports -
Now Boarding for Growth

As per industry estimates, passenger traffic and cargo movement in 2006-07 is expected to increase to 77 million and 1.40 million tonnes, respectively.

Robust Economy

These are buoyant times for the Indian economy and with GDP growth exceeding 8percent consecutively over the past two years India is set to become one of the fastest growing economies of the world.

The recent budget has established a trajectory of 10percent growth and per capita income on a purchasing parity basis has grown 70percent since 1998 to approximately USD 4360. This robust economic growth is largely attributed to the growing young Indian working population. According to estimates, out of the total population of 1.1 billion in India almost 50percent fall below the age of 25 years.

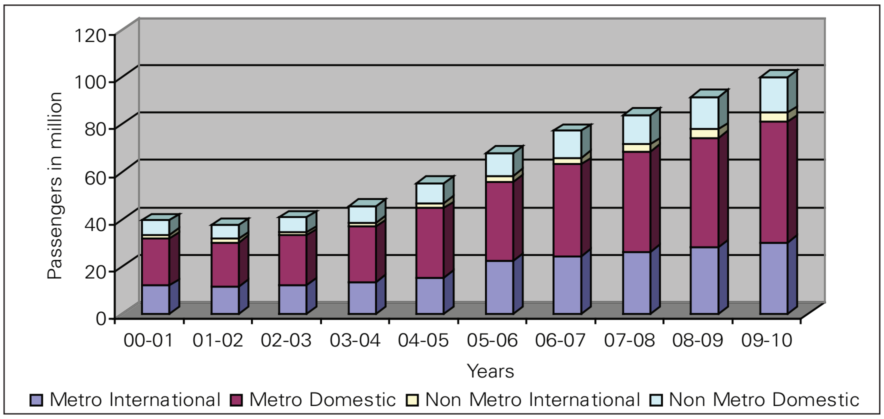
The acceleration in economic activity has seen the emergence of fast paced industry growth, increased movement of people and goods; factors contributing to the mammoth growth witnessed in recent times by air travel and freight movement.

Another compelling factor is the growth in tourism driven by India's attractions for its natural, cultural, business, leisure, spiritual and adventure tourism. This has further increased the demand on air travel. According to estimates, visitor numbers are expected to cross 4 million in 2006, which would mean a further increase in demand on the sector.

Another related aspect is the emergence and growth of low cost budget carriers. Budget carriers, in some cases are directly competing with other traditional modes of transportation such as railways by offering attractive travel terms to passengers. This has a direct bearing on passenger volume and in turn affects infrastructure requirements.

As per industry estimates, passengers are expected to increase from 39 million in 2000 - 01 to 77 million in 2006 - 07; and Cargo is expected to increase from 0.8 million tonnes to 1.40 million tonnes during the same period. This increase along with the proposed increase in fleet sizes from 271 to 482 will further warrant the need for improved and increased airport facilities.

A year-wise passenger traffic trend is shown in the following table:



Key Industrial Drivers

On an overall level the economic growth, increased fleet size, higher income levels of the new generation working population and a more aware traveler, all have a significant impact on the need for growth in the sector. Apart from the macro determinants, there are other more specific industry factors which suggest that the demand for airport services will continue to grow. Some of these factors are the growth in inbound tourism, outbound passenger travel, inbound business travel, low cost carriers and increased cargo movements.

Inbound Tourism

- In 2005, foreign tourist arrivals grew by 24percent; according to World Travel and Tourism Council, the number of tourists visiting India is expected to grow at 8.8percent CAGR over the next decade
- The tourist arrivals is expected to grow on the back of increasing health tourism and measures taken by Indian Ministry of Tourism to promote the tourism sector in India

Low Cost Carriers

- Growth in domestic travel and tourism is expected as a result of greater domestic airline capacity from the expansion of low cost carriers
- Greater access to low cost air travel is expected to assist demand for business travel

Cargo

- Spurred by the strong national economic growth, India's foreign trade grew at a CAGR of 27percent in exports and 28percent in imports from 2000 to 2005
- This growth is expected to continue at around 15percent for next five years, which will lead to increase in international cargo movement

Outbound Passenger Travel

- The number of Indians going abroad increased 16percent in 2005 to 7.2 million; on the back of rising disposable income, increasing financing options and Government support, the outbound tourism is expected to continue to rise

Government Policy and Regulation

- The Airport Industry has hitherto been under Government control. The development of the airports would be regulated by Civil Aviation policy and Airport Economic Regulatory Authority to be setup by Government of India (GOI)

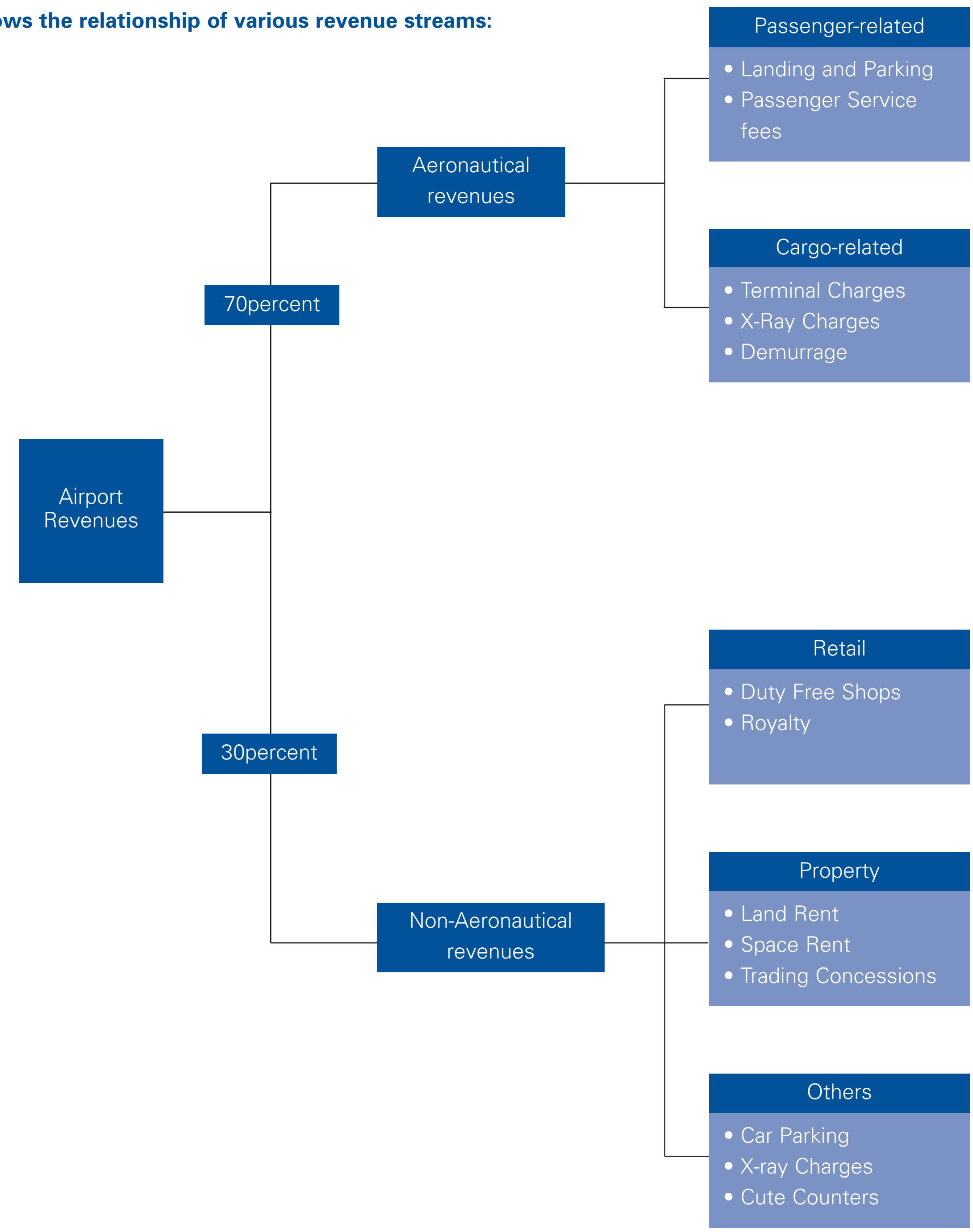
Inbound Business Travel

- The FDI increased rapidly in the past two years by over 20percent growth rate annually reaching USD 6.7 billion in 2005; the FDI is expected to continue grow at a CAGR of around 11percent in the next five years
- India's software services sector, which is expected to grow at a CAGR of 18-20percent from 2005-10, will also act as significant growth driver for outbound travel

The Indian Airports Business Model

The Indian airport business model categorises revenue streams into two major parts- aeronautical and non-aeronautical. Aeronautical revenues are mainly received from airlines, passengers and cargo facilities users. On the other hand, non-aeronautical revenues mainly come from airlines and commercial users of the airport facilities.

The diagram shows the relationship of various revenue streams:



Airport Development and Modernisation - Revamping For Growth

The Indian airports are preparing itself for an intensive modernisation program. Airport development and modernisation had traditionally never been on the Government's priority list and as a result, there is a huge development gap causing congestions and inefficiencies at Indian airports. To meet this huge gap and the indispensable need for reform, the Government is now taking several steps for creating world-class airports in a reasonable time-frame.

The development of airport infrastructure may be categorised as

(a) Airside

(b) Terminal building, car park and cargo;

(c) City side (cargo complexes, hotels and flight kitchens)

(d) CNS-ATM equipments

Objectives

Airport development in India is focused primarily around two main objectives:

1) **Enhanced Capacity:** There is an urgent need to enhance the capacity of airports to meet the growing demand created by accelerated economic growth and tourism. There needs to be enough capacity to eliminate/reduce landing delays thereby reducing traffic congestion. In addition to airside development the capacity of the terminal and city side facility needs to be enhanced.

2) **Improved Services:** There is now a compelling need to provide world class service to users at an affordable cost, the services of airports should commensurate with the user requirements. The airport services may be categorised into terminal management, ground handling, aviation services, air traffic services, safety and security services.

Investment Needs

The Committee on Infrastructure chaired by the Prime Minister estimated an investment of INR 40,000 Cr. for development of airports during the period 2006-07 to 2013-14. Out of the total, it is estimated that INR 31,100 Cr would arise from Public Private Partnership (PPP). Projected investments from PPPs in airports are given in the table below:

Airport Private Investment	INR in Cr
Delhi and Mumbai	11,400
Bangalore and Hyderabad	4,000
Chennai and Kolkata	5,700
Five Greenfield airports	8,500
City side development	1,500
Total	31,100

Source: Report of the task force - Financing plan for Airports by the secretariat for the committee on infrastructure

The Government has already awarded Greenfield airports in Bangalore and Hyderabad and handed over operations, management and development of Delhi and Mumbai airports.

Current Plans

The Indian Government is committed in it's effort for development of airports and has put forth plans for various stages of modernisation and investment.

The capital requirements of the airports can be broken down into three parts:

(a) Terminal building, car park and cargo;

(b) Airside; and

(c) City side (cargo complexes, hotels and flight kitchens)

To meet the above objectives and investment needs, the Government has planned development options for various airports in India (see table below).

In addition to the above some state Governments have initiated with Ministry of Civil Aviation (MoCA) for development of green filed airports in their respective states.

The Government plans to award all concessions for the below-listed work by 2012 though actual investments would complete by 2013-14.

Development options	Place of development
Greenfield airports	Hyderabad, Bangalore, Goa, Nagpur, Pune, Navi Mumbai, Greater Noida and four North eastern states
Up-gradation and development of existing airports thru PPP	Four Metro airports
City side development of airports including up- gradation of existing airports	35 non metro airports
Airside development by AAI	35 non metro airports
Up gradation	All existing airports other then 35 airports
Equipment and Instrumentation	All airports.

The Government has already made significant progress on airport development plans. Out of the total planned work, the Government has already awarded Greenfield airports in Bangalore and Hyderabad and handed over operations, management and development of Delhi and Mumbai airports. A brief description of these transactions is given in the following paragraphs.

Bangalore International Airport (BIAL)

Greenfield airport at Devanahalli is on a Build Own Operate and Transfer (BOOT) basis for 30 years at a cost of INR1930 Cr. The airport is expected to commence operations in April 2008.

Shareholders include Karnataka State Industrial Investment Development Corporation (KSIIDC) and AAI- 13percent each (AAI investment Capped at INR 50 Cr), Siemens Germany - 40percent, Unique Zurich Switzerland and L&T India Limited 17percent each.

Equity -INR315 Cr., State Support - INR350 Cr., Debt -INR1265 Cr.

Hyderabad International Airport (HIAL)

Greenfield airport at Shamshabad near Hyderabad is being developed on Build Own Operate and Transfer (BOOT) basis with PPP at a cost of INR1761Cr. The airport is expected to commence operations in April 2008.

Shareholders include Govt. of Andhra Pradesh and AAI 13percent equity each, GMR Infrastructure Ltd. holds 63percent and Malaysian Airport Holding Berhard (MAHB) - 11percent. AAI's investment in the equity is capped at INR50 Cr. Estimated cost of the Project is INR1762 Cr

Equity-INR379 Cr., State Support-Grant INR107 Cr. Int. free loan INR315 Cr. Debt-INR961 Cr.

Delhi International Airport (DIAL)

Brownfield airport project awarded as a Public Private Partnership ('PPP') between GMR Group - 51percent, Fraport AG - 10percent, Malaysian Airport (MAPL) - 10percent, Airport Authority of India - 26percent, IDF - 3percent

By virtue of the Operations, Maintenance and Development Agreement (OMDA) with the AAI, the airport was handed over to the DIAL on May 3, 2006. The concession is for a period of 30 years of operations with an option to extend the concession period for another 30 years. DIAL will share 45.99percent of its revenue with AAI.

The first milestone for submission of the Master Plan has been completed in October 2006. Estimated investments for the project stands at INR 5270 Cr during the period 2006-07 to 2013-14

Enhanced facilities at the existing airport including development of new terminals and runways are required to be completed by March 2010 (considering that 2010 Commonwealth Games are scheduled to be in India).

Mumbai International Airport (MIAL)

Brownfield project awarded as a Public Private Partnership ('PPP') between GVK Group - 37percent, Airports Company South Africa (ASCA) - 10percent, BID Services (Mauritius) - 27percent and Airport Authority of India ('AAI') - 26percent

By virtue of the Operations, Maintenance and Development Agreement (OMDA) with the AAI, the airport was handed over to the MIAL on May 3, 2006. The concession is for a period of 30 years of operations with an option to extend the concession period for another 30 years. MIAL will share 38.70percent of its revenue with AAI.

The first milestone for submission of the Master Plan has been completed in October 2006. Estimated investments for the project is INR6130 Cr during the period 2006-07 to 2013-14

Non Metro Airports

In addition to the bigger metros, there is a need to meet the growing demands of travel, business and tourism at other non metro locations in the country. The Ministry of Civil Aviation has proposed the development of 35 non-metro airports in three phases:

Phase-I (10 airports): Ahmedabad, Amritsar, Guwahati, Jaipur, Udaipur, Trivandrum, Lucknow, Goa, Madurai and Mangalore. In case of project specific problems, some airports may need to be substituted.

Phase-II (15 airports): Agati, Aurangabad, Khajuraho, Rajkot, Vadodara, Bhopal, Indore, Nagpur, Vishakapatnam, Trichy, Bhubaneswar, Coimbatore, Patna, Port Blair, Varanasi.

Phase-III (10 airports): Agra, Chandigarh Dimapur, Jammu, Pune, Agartala, Dehradun, Imphal, Ranchi and Raipur.

The airside and terminal building development would be done by AAI while investments for commercial development of land (city side development) of non-metro airports shall be made by private sector.

AAI is also considering the formation of wholly owned subsidiaries for some select larger non-metro airports.

Investor Considerations -
Making Sure You Pack Right

The current revenue pattern of airports in India shows that 70percent of income is derived from aeronautical activates and 30percent from non aeronautical activities.

Privatisation Strategy

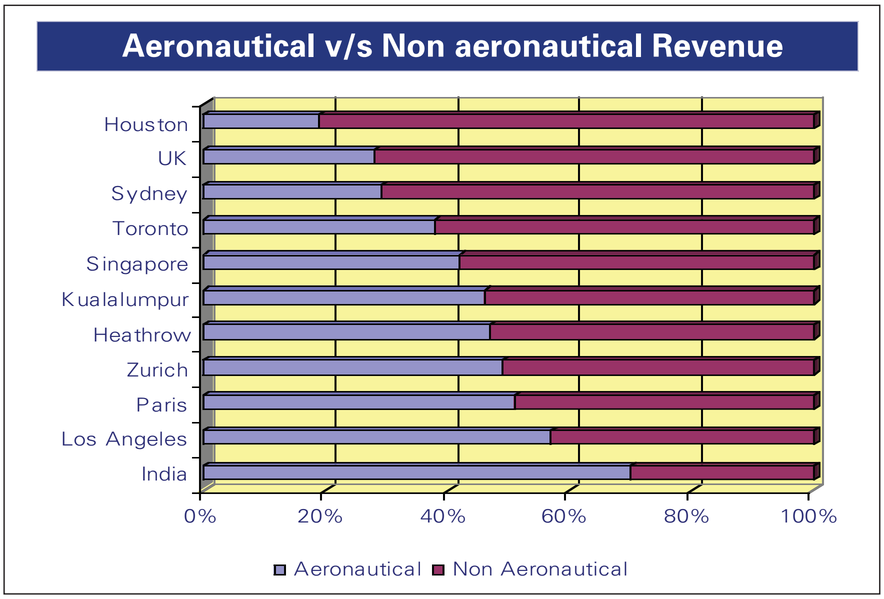
The Indian Government’s current privatisation strategy involves privatising four metro, seven Greenfield airports and 35 non metro airports (city side development). The modalities of privatising Kolkata and Chennai airports are under consideration.

The AAI is also considering the creation of a wholly owned subsidiary for development and operations of select larger airports. The possibility of going in for PPP in respect of few selected airports is also under consideration.

Revenue Patterns

Revenue Type

The current revenue pattern of airports in India shows that 70percent of income is derived from aeronautical activates and 30percent from non aeronautical activities. On the flip side international trend shows that the major portion of revenue is from non aero activities. The following table shows the pattern of aeronautical vs. non-aeronautical services in other countries.



From the investor's perspective, though there is a huge potential for investment and the Government's FDI policy is also in place, there remains a need for a stable and firm strategy providing the what, the how and the when for airport privatisation process.

Aeronautical revenues are largely dependent upon passenger traffic and tariff. These factors are largely external and beyond an airport operator's direct control. However, by providing quality services including branding of airports, the airport operator can attract more

To provide the regulatory functions, an independent and autonomous body acting in a transparent and participative manner, a bill for creation of Airport Economic Regulatory Authority (AERA) is currently under consideration by the GOI.

passengers leading to enhanced revenue.

Non-aeronautical revenue stream is a niche area with huge potential for exploring revenue enhancement as the rates are not regulated. There are however certain constraints within which activities can be carried out.

Policy and Regulations

As per the current aviation policy of India:

- 100percent FDI is permissible for existing airports and FIPB approval required for FDI beyond 74percent
- 100percent FDI under automatic route is permissible for Greenfield airports.
- 100percent tax exemption for airport projects for a period of 10 years.

The civil aviation regulations are governed by Ministry of Civil Aviation.

The Need for independent regulator

AAI is currently both an operator and the regulator for airports in India and Investors have no recourse to an independent regulator. At the time when AAI is partnering with private airport developers for providing enhanced capacity and services it becomes imperative to have an independent regulator.

To provide the regulatory functions, an independent and autonomous body acting in a transparent and participative manner, a bill for creation of Airport Economic Regulatory Authority (AERA) is currently under consideration by the GOI.

The international experience testifies to the fact that sound regulation paves way for successful PPP's. While considering the proposal for an independent regulator for airport sector in India, the Government is considering the approach, functions, accountability, tribunal process and other experiences of regulators in United States, UK, Australia and other countries.

In the absence of a regulator, the MoCA is currently regulating most aspects related to aviation. A rapid and consistent development of airport sector would get a huge impact from setting up of an independent sector regulator.

Financing

Investment in infrastructure involves a long term commitment. Obtaining clear financial information is important at the pre acquisition stage. It is important for the investor to include both financial and tax structuring as part of the overall evaluation in deciding the investment in airports.

The key considerations that the investor will have to keep in mind are

Restrictions by AAI on development of airports

The Attorney General of India has given an opinion to AAI for not granting a lease to any person in respect of airport properties for the purpose of construction of independent golf courses, business parks, high-tech parks, commercial offices, leisure facilities, commercial arcades, sports complexes, shopping complexes and convention centers. According to him, these activities have no relationship with the functions of the AAI under section 12 of the AAI Act.

The private sector may perceive this type of restriction as an impediment for privatisation and would have a great impact on financial feasibilities of the development projects. This is all the more important in view of the fact that most of the Airports are currently loss making.

Modernisation of the loss making airports

As the non metro airports are loss making it will be difficult to obtain private funding for the development of these airports unless they are appropriately bundled and proposed for development or supported by Viability Gap funding (VGF). As per the guidelines on financial support to PPP in Infrastructure, Government has offered VGF in the form of capital grant assistance up to 20percent of the capital cost for making these projects bankable and to mobilise private capital.

Tax Structuring

Availability of Tax holiday

Incentives in the form of a 10 year tax holiday have been extended to infrastructure facilities (including airports) to attract investors in this space. These benefits are available to developing, developing, operating and maintaining any new infrastructure facility. The term 'new infrastructure facility' commonly refers to a green field project.
Therefore, the issue for consideration is whether substantial modernisation, up-gradation, redevelopment, etc. of existing airports would qualify as a 'new' facility. This is especially relevant as substantial investments are being made towards up-gradation of airport facilities.

As such, the fact of creation of new assets (such as new terminal buildings, runways, taxiways, loading and unloading infrastructure, safety devices etc.) shall support the tax holiday claim by a Brownfield project, the issue needs to be looked into in greater detail.

Non-operational income

The tax holiday is in respect of income derived from the business of developing and operating an airport. There has been intense litigation on this issue in the context of various eligible businesses, wherein the term 'derived from' has been interpreted by the Courts to mean a direct nexus or relationship with the eligible business. Typically, the revenue model of the airports comprises of a very substantial part of non-operational revenues comprising of real estate development and retail concessions.

For a successful claim of a tax holiday in respect of such non-operational income, it needs to be appropriately documented that such revenues merely represent a mode of computation of income resulting from the business of developing and operating an airport.

EPC Structuring

Modernisation and construction of airports presents exciting business opportunities for the Engineering Procurement and Construction ('EPC') contractors. Typically, such contracts comprising of offshore supply, offshore services, onshore supply and onshore services, may be bundled or split contracts. While split contracts provide tax planning opportunities, sometimes bundled contracts may be more suited for the commercial imperatives of the project owner. Single point responsibility is a key commercial concern for the project owner and this is often achieved in a split contract, through a wrap around agreement.

However, there has been considerable litigation in past where the tax authorities have challenged the tax benefits of a genuine split structure, by treating the arrangement as a composite contract.

Such adverse tax treatment may result in taxation of income streams from offshore supplies and services. Absolute clarity in contract structuring is therefore crucial, to bring out an unambiguous delineation of the on-shore and off-shore activities.

AOP exposure

It is common for consortiums to bid for major EPC contracts. It is crucial that the role of each consortium member is clearly defined and there are clearly discernible revenue streams to avoid being taxed as an 'Association of Persons' ('AOP'). An AOP could have potential tax exposures for the consortium members and contract documentation could play a key role in building safeguards against such characterisation. The Government in order to promote infrastructure development through private players has given tax incentives in the form of a 10 year tax holiday. The infrastructure development includes airports and is available for 'new infrastructure facility'. New infrastructure facility in terms of airports would mean only Greenfield airports. Due to this ambiguity the airport operators who will take up modernisation of Brownfield airports will not get the benefit of tax incentive. A substantial enabling provision should be created which will allow the other airport operators to get the benefit of tax holiday.

Post transaction integration

Some of the post-transaction integration challenges s in case of privatisation of existing airports are:

Up-gradation of airport processes, skill set and IT tools:

Airports in India lack the modern processes, skill sets and latest IT infrastructure. Brownfield airport projects involve a massive transfer of Human resources to the JVCs. The JVC needs to suitably upgrade and integrate this staff with their system. The up-gradation and integration of employees is one of most critical challenges for the private operators to succeed.

Coordination with external agencies

There needs to be smooth coordination with several external agencies working at the airport such as Police, Customs, Immigration, Environment, Animal husbandry and Security can pose to be one of the biggest challenges for private airport developers and operators.

License period

In an effort towards operating the airport, the airport operator needs license from DGCA but as per the current policy the license can only be granted for a maximum period of 12 months at a time. As the lease term for an airport is generally for a long period say 30 years, the lessee will want the assurance that they can operate the airport for full term of the concessions awarded to them.

Privatisation Approach -
An International Perspective

Privatisation Transaction

Privatisations of airports gained momentum post the 1980s across the world. Significant privatisations have occurred in the UK, Australia and Canada among other countries. The Australian Government privatised most of its major capital city and general airports between1994 to 2003 by giving airports to private sector on long term leases. Though the need and concept of privatisation remain the same in most cases, the approach to privatise varies from country to country. The following table provides brief information on methods various countries across the world have adopted for privatisations

Name of Country	Process Adopted	Other Information
United Kingdom	Full Privatisation	Privatisation of British Airport Authority, responsible for operation of 7 airports
Australia	Full Privatisation	17 airports sold on long-term lease of 50 years and with an option for additional 49 years
Columbia	Build, Operate and Transfer (BOT)	BOT contract to build second runway and operate both runways at El Dorado International Airport, Bogotá
Canada	BOT	Private entity invited to build and operate a third terminal at Pearson International Airport in Toronto on a long-term lease basis
Thailand	Strategic Partner/ Partial Divestiture Schemes	A strategic partner is being sought to participate in development and operation of a second international airport at Bangkok
Hong Kong	Management Contract Schemes for new airport	Private company awarded management contract of Kai Tak
India	BOT and BOOT	Delhi and Mumbai airports transferred on long term lease. Greenfield contracts awarded for Bangalore and Hyderabad airports

In the privatisation process, to have a collaborative relationship, the Government should act as a partner for development of airport businesses.

Lessons learned

Extent of Privatisation

There are two approaches to privatisation which help determine the spread of the privatisation process:

The complete privatisation of airports is achieved when the airport involve an extensive degree of private control over virtually all aspects of airport planning, design, finance, operations, pricing and access.

In case of airports that have been privatised but remain under the control of Government, the airports are unable to set their own standards of performance, price in the market and cannot restrict the access to their services.

In the privatisation process, to have a collaborative relationship, the Government should act as a partner for development of airport businesses.

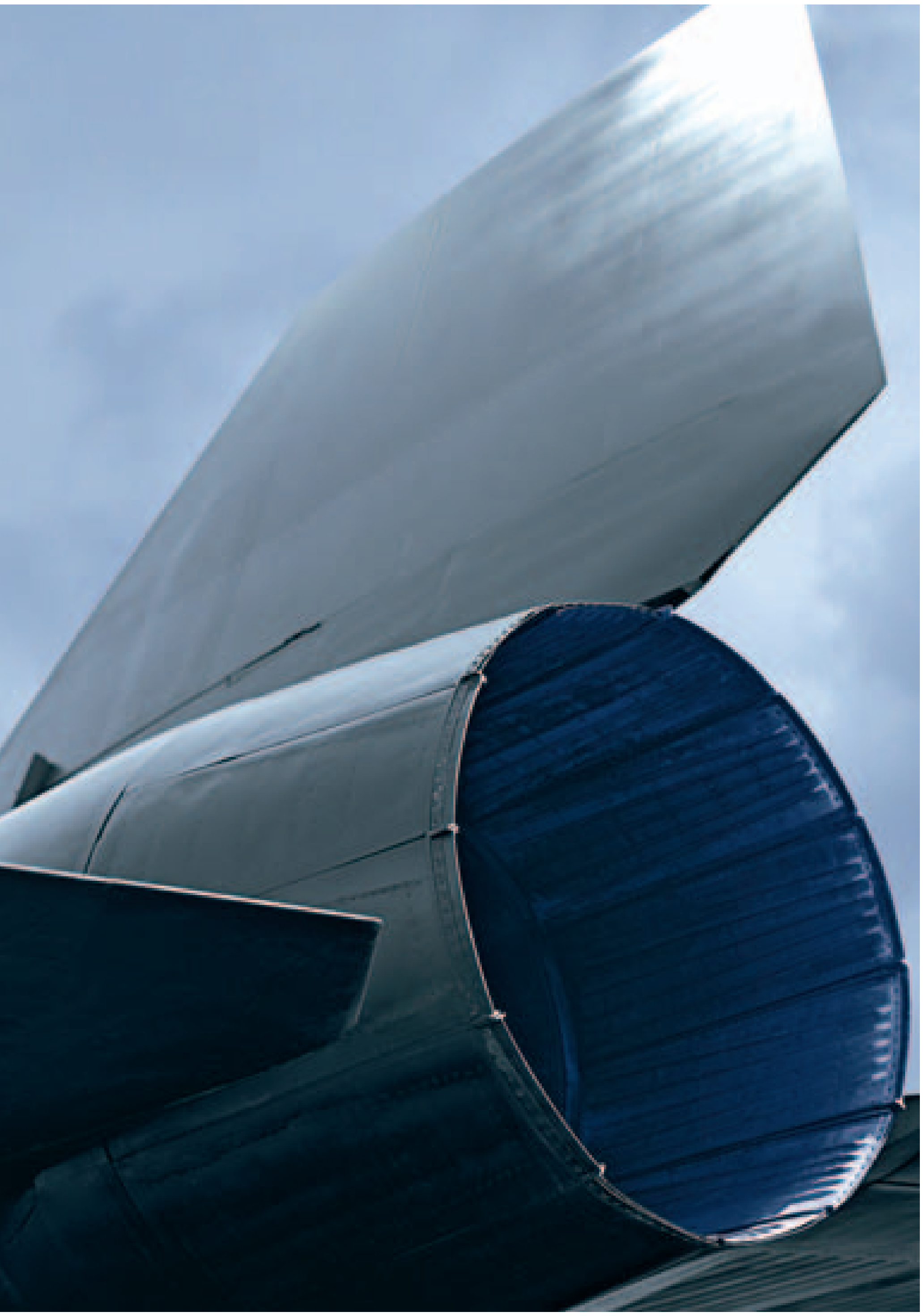
Process of privatisation:

The privatisation process in case of Government managed airports is generally time-consuming because governmental operations exist in a web of procedures and practices. It takes time and care to untangle these relationships so that a particular operation can be sold or otherwise transferred to private operation.

For the countries where there is extensive experience in contracting for private investment in or operation of facilities, new privatisations can happen in relatively less time.

The privatisation efforts should focus on incremental changes and these changes should be thought out and tested carefully to determine what modifications result in better overall changes.

The Next Step -
Riding the Jet Stream



While the process of accelerating the momentum and covering the gaps is now becoming exigent, the Indian Airports Industry is well on its way to becoming a part of the big league in the global aviation arena.

The key imperatives for India to achieve a sound privatisation process are:

The new civil aviation policy

These are exciting times for the aviation sector in India and passenger traffic and freight movement is on perpetual rise. This makes it equally imperative to reinforce and develop airports infrastructure. The airport sector is looking for an approval of new civil aviation policy, which is hopefully expected to address a majority of the challenges/ bottlenecks which are faced during the privatisation process including setting up of regulator for development of independent and robust regulations.

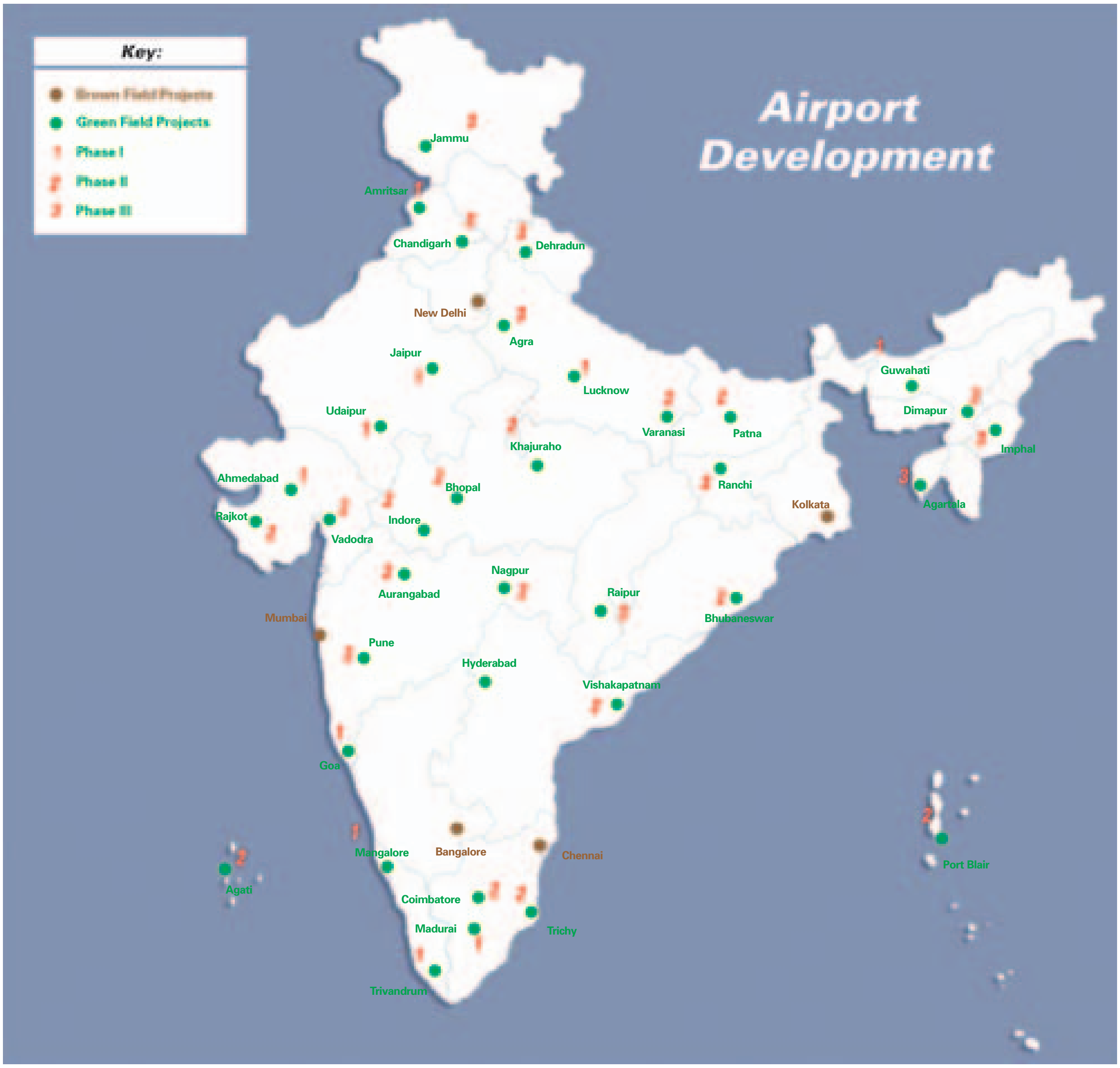
Privatisation strategy

It will also be helpful for the private sector to position them if the Government formulates and announces clear and transparent long-term privatisation strategy.

Independent Sector Regulations

Considering the fact the growth of infrastructure is directly linked with the possible economic growth, the present Government is determined and focused to do everything that helps the development and modernisation of airports in India.

Airport Development plan - 2006-07 - 2013-14



The World of KPMG's Global Airports Team

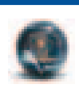
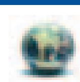
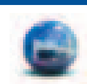
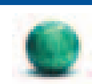
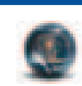
Our Services

- Mergers and acquisitions
- Due Diligence
- Financing and structuring
- Valuation
- Economic regulation
- Level of service
- Strategic and market assessment
- Traffic forecasting
- Facilities and capacities
- Financial management
- Commercial development
- Privatisation and trade sale
- Alternate Service Delivery (including DBOF, management contract and other schemes)
- Bid preparation
- Bid evaluation
- Benchmarking and case studies
- Performance measurements
- Governance
- Assets and property
- Accounting and Taxation
- Human resource

KPMG in India

The member firms of KPMG International in India were established in September 1993. As members of the cohesive business unit that serves the Middle East and South Asia (KPMG's MESA business unit), they respond to a client service environment by leveraging the resources of a global network of firms, providing detailed knowledge of local laws, regulations, markets and competition. We provide services to over 2,000 international and national clients, in India. KPMG has offices in India in Mumbai, Delhi, Bangalore, Chennai, Hyderabad, Kolkata and Pune. The firms in India have access to more than 1500 Indian and expatriate professionals, many of whom are internationally trained. We strive to provide rapid, performance-based, industry-focussed and technology-enabled services, which reflect a shared knowledge of global and local industries and our experience of the Indian business environment.

KPMG India's Lines of Business (LoB) Expertise

Information, Communication and Entertainment	Consumer Markets	Industrial Markets	Financial Services	Infrastructure and Government
				

Samples of recent experience…

• IT enabled services/ BPO • IT and software services • Telecommunications • Multimedia content broadcasting and distribution • Radio broadcasting	• Food and beverages (e.g biscuits, snacks, soft drinks) • Consumer electronics (e.g television, watches, electrical equipment) • Retail	• Automotive (including auto components) • Textiles • Pharmaceuticals (e.g Rx and OTC, clinical research, medical equipment, tertiary healthcare) • Chemicals	• Banking • Non-life Insurance • Re-insurance • Life Insurance • Asset Management • Trading	• Oil and Gas • Electricity • State policies • Construction (e.g civil engineering)

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