



Airport Privatization in India: Lessons from the Bidding Process in Delhi and Mumbai

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Abstract

Modernization of Delhi and Mumbai airports had been considered as early as 1996 by the Airports Authority of India (AAI). In June 2003, the AAI board approved a modernization proposal. These airports accounted for 47% of the passenger traffic, 58% of cargo traffic and 38% of aircraft movement in 2003-04. They generated one third of all revenues earned by the AAI. Both Delhi and Mumbai airports handled twice as many aircraft movements as they were originally designed for, resulting in congestion for both aircrafts and passengers.

The bidding process began in May 2004 with an original completion date of September 2004. However, due to a variety of reasons, the process got delayed and the bids were finally received by September 2005. The evaluation process of the bids was questioned at various levels. There were many reviews of this with inputs from experts. The final decision was made in January 2006 by the Empowered Group of Ministers (EGoM) after compromising on some of its own set parameters for one of the airports. One of the losing bidders called this an arbitrary decision making process and challenged the decision in court. After two stages of legal battle, the bidder finally lost the case in November 2006 and the original awardees retained their position. Work is now progressing at these airports.

This paper focuses on the bidding process and brings out the lessons learnt.

Airport Privatization in India: Lessons from the Bidding Process in Delhi and Mumbai¹

1. Introduction

In June 2003, the Airports Authority of India (AAI) board approved a modernization proposal through the privatization route for Delhi and Mumbai airports. The bidding process began in May 2004 with an original completion date of September 2004. However, due to a variety of reasons, the bids were finally sought and received by September 2005. The evaluation process of the bids was questioned at various levels. There were many reviews of this with inputs from experts.

The major policy decisions were made by the Empowered Group of Ministers (EGoM). There were other supporting committees involved in the bidding process. Exhibit 1 gives the scope and members of these committees. The final decision was made in January 2006 by the EGoM after compromising on some of its own set parameters for Mumbai airport. One of the losing bidders called this an arbitrary decision making process and challenged the decision in court. After two stages of legal battle, the bidder finally lost the case in November 2006 and the original awardees retained their position. Work is now progressing at these airports.

This paper focuses on the bidding process and brings out the lessons learnt. The paper draws significantly from a series of cases written on the subject by the authors [Jain, Raghuram and Gangwar, 2007].

2. Early Steps Towards Privatization

Modernization of Delhi and Mumbai airports had been considered as early as 1996 by the AAI. In 1998, the Prime Minister had made a declaration that world class airports should be set up in the country. A task force on infrastructure recommended in 1999 that a long term lease for outsourced management should be considered. They were not in favour of corporatization. In June 2003, the AAI board approved a modernization proposal costing approximately Rs 30 billion for Delhi and Mumbai airports. The AAI Amendment Bill was passed by the parliament authorizing AAI to transfer the operations and management of its existing airports by way of long term lease to private players. These were expected to run for a period of at least 30 years, with an option to extend for a further 30 years. However, air traffic control would remain the responsibility of AAI and security that of the government. The Act was notified as effective from July 01, 2003.

In September 2003, a cabinet meeting of the then National Democratic Alliance (NDA) government approved a restructuring of the Delhi and Mumbai airports on a long term lease by adopting joint venture route with 74 per cent equity of a private consortium and 26 per cent of AAI. They also constituted the EGoM for implementing the decision. The Ministry of Civil Aviation (MoCA) constituted the IMG in October 2003 to assist the

¹ Prepared by Rekha Jain, G Raghuram, and Rachna Gangwar.

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This paper is an outcome of the series of cases written on the subject by the authors.

EGoM. The then EGoM met on November 09, 2003 under the chair of the Finance Minister.

The EGoM approved the appointment of ABN Amro as the financial consultants (FC) on December 22, 2003. An Invitation to Register an Expressions of Interest (ITREOI) for acquisition of 74 per cent equity stake in the Joint Venture Company (JVC) was issued on February 17, 2004. Last date of submission of expression of interest (EOI) as a response to the ITREOI was June 04, 2004. Exhibit 2 gives excerpts from the ITREOI, including government objectives and decisions, and bid structure. AAI's overall objective was to complete the transaction for both the airports not later than September, 2004. Exhibit 3 gives a macro economic perspective on the rationale for restructuring and modernization of Delhi and Mumbai airports as given in the ITREOI.

Exhibit 3 also describes the aviation oversight functions which were distributed between MoCA, AAI, Directorate General of Civil Aviation (DGCA) and the Bureau of Civil Aviation Security (BCAS). There were 449 airports/airstrips in the country. Commercial air services were possible only to 122 AAI approved airports. Eleven of these were international, 83 were domestic civil airports and 28 were civil enclaves at defence airfields. Of these, commercial airlines operated only through 60 airports. The remaining were unutilized, at best handling occasional charter aircraft operations. Only 11 out of the 122 airports generated profits.

3. Delhi and Mumbai Airports

The Delhi and Mumbai airports accounted for 47% of the passenger traffic in 2003-04. They were even more significant in terms of cargo traffic, accounting for 58% of the share. Catering to this, the aircraft movements share was 38%. These airports generated one third of all revenues earned by the AAI. Both Delhi and Mumbai airports handled twice as many aircraft movements as they were originally designed for, resulting in congestion for both aircrafts and passengers.

In 2003-04, Delhi airport handled 10.4 million passengers, of which 58% were domestic. The total cargo traffic was 296 thousand tons, of which 31% was domestic. The main source of revenue at Delhi airport was aeronautical services (42%). Non-aeronautical services included cargo (26%), and commercial and others (32%).

In 2003-04, Mumbai airport handled 13.3 million passengers, of which 60% were domestic. The total cargo traffic was 326 thousand tons, of which 28% was domestic. The main source of revenue at Delhi airport was aeronautical services (50%). Non-aeronautical services included cargo (17%), and commercial and other (33%).

During the early period of the tenth plan (2002-07), passenger traffic at airports had grown at an average rate of 7% per annum. Government was expecting an average growth rate of 16% per annum by 2010, given the "Open Skies" policies and the response by the private sector in establishing new airlines, including low cost carriers.

Nearly 97% of the country's foreign tourists arrived by air, mostly through the Delhi and Mumbai gateways. Tourism was the nation's second largest foreign exchange earner. While cargo carried by air weighed less than 1% of the total cargo exported/imported, it accounted for nearly 20% of the total value.

A survey by the International Air Transport Association (IATA) revealed that for the year 1999, Delhi and Mumbai airports ranked amongst the three least favored airports in the Asia Pacific region in each of the 19 service elements considered. The overall ratings for Delhi and Mumbai were 2.6 and 2.3 respectively on a 5 point scale, while the average for airports in the Asia Pacific region was 3.5 and for world airports was 3.8. Copenhagen, Singapore's Changi and Helsinki ranked among the top for overall passenger satisfaction out of the 57 airports covered in the survey, with a rating of about 4.3 to 4.4.

[<http://www.hinduonnet.com/fline/fl2303/stories/20060224006913000.htm>]

[<http://www.ipsnews.net/news.asp?idnews=31659>]

4. Pre Bid Events (May 2004 to September 2005)

Change of Government

The country went for general elections in May 2004, resulting in the change of government to the United Progressive Alliance (UPA). The UPA coalition government was supported by the Left parties, but from outside the government. The new government took over towards the end of May, 2004 and adopted a National Common Minimum Program, in which a thrust on infrastructure development was a key focus area.

The EGoM was reconstituted under the chair of the Defence Minister on June 15, 2004. The EGoM decided not to review the earlier cabinet decision, though it put a cap of 49 per cent on foreign direct investment within the 74 per cent of the private equity in the JVC. Equity participation of Indian scheduled airlines was revised upwards from 5 per cent to 10 per cent. The last date of submission of EOI was extended to July 20, 2004.

The EGoM considered and approved the appointment of Air Plan, Australia as the global technical advisor (GTA) and Amarchand & Mangaldas & Suresh A Shroff & Co (AMSS) as legal consultants (LC) on June 25, 2004.

Ten bidders submitted EOIs by July 20, 2004. Exhibit 4 gives the background information on the bidders. Nine bidders excluding Videocon were shortlisted as pre qualified bidders (PQB). The Videocon consortium was rejected because the group had involved an airport consultant rather than an airport operator.

The AAI appointed Thakur, Vaidyanath Aiyar & Co (TVA) as accounting and tax advisor for the bidding process in August, 2004. The IMG was reconstituted in October, 2004 replacing the Additional Secretary and Financial Advisor of MoCA by Secretary, MoCA as the chair of the Group (with a mandate for submitting its report within 15 days).

Request for Proposal

The EGoM approved key principles of the RFP document along with the draft transaction documents. The RFP document for Delhi and Mumbai airports and the draft transaction documents were issued to nine PQBs on April 1, 2005. Exhibit 5 gives the excerpts from the RFP.

The finals bids were to be submitted no later than 5 pm on the June 24, 2005. The pre bid process envisaged management presentations, site visits, due diligence – question and answer process, technical inspection of airports, management interviews, proposed

changes in the draft transaction documents, review meetings of PQBs with the government transaction team and culmination with the lodgment of offers. Dates and deadlines were provided for each of the above.

The evaluation of the offers was required to be done in accordance with the Chapter 5 of RFP. The evaluation process was to be conducted in four phases. Phase 1 required the consideration of certain mandatory requirements. Phase 2 involved the consideration of financial commitment. All remaining offers would be then assessed in phase 3 for a minimum benchmark of 80% on the two technical pre-qualification criteria. These two were (a) Management Capability, Commitment and Value Add and (b) Development Capability, Commitment and Value Add. For each of the above criteria, there were various sub-criteria. Marks were assigned to the sub-criteria so that the total for a criterion added to 100. The assessment was to be on an absolute (and not on a relative) basis between the offers. There was no pre-determined number of offers that would be considered for phase 4.

Phase 4 involved the assessment of the financial consideration, which was on the basis of a percentage of gross revenue (both aeronautical and non-aeronautical) that would be shared with the government. The principle was that the bidder with the highest revenue share would be the successful bidder.

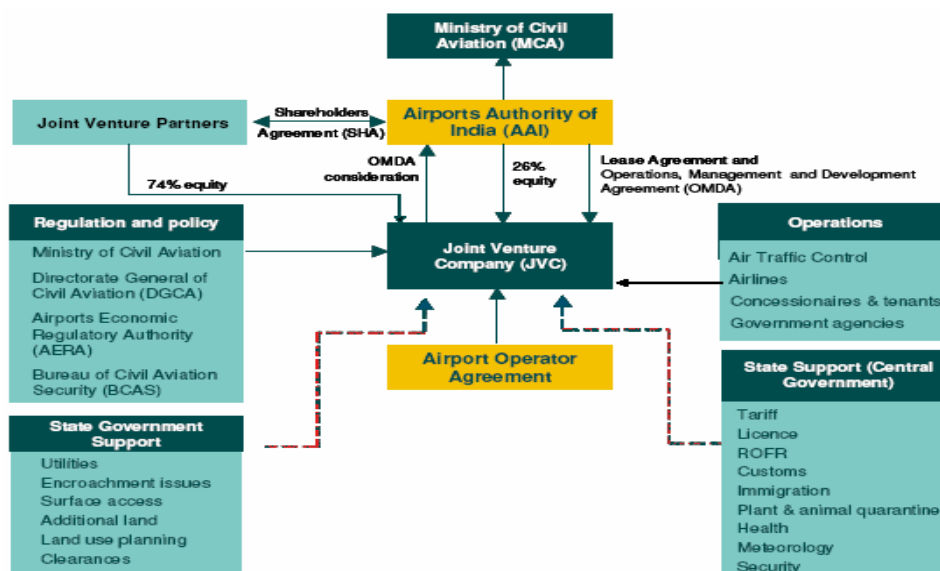
As it was possible that a bidder could bid for more than one airport, it was also envisaged that the highest bidder may be the highest for both the airports. In such a case, the highest bidder would be declared as the successful bidder for that airport where the margin between the highest offer and the second best offer was the most. Accordingly, the successful bidder for the other airport would be the bidder with the second best offer for that airport provided that the bidder was willing to match the highest bidder for that airport.

It was also envisaged that there may be a situation where the above margin may be the same. Then it was provided that the highest bidder would be declared as the successful bidder for that airport where the offer was the highest and the successful bidder for the other airport would be the bidder with the second best offer for that airport provided that the bidder was willing to match the highest bidder for that airport.

The JVCs were mandated to undertake capital expenditure of Rs 28 billion at Delhi and Rs 26 billion at Mumbai in the first five years. The expenditure on development of Delhi airport was likely to be Rs 79 billion for the period 2005–2024 whereas for Mumbai airport, it was likely to be of the order of Rs 59 billion over the period 2005-2019.

Transaction Documents

The transaction documents had been finalized after several rounds of inter-ministerial consultations and with the involvement of ABN Amro, Air Plan, AMSS and TVA. Inputs from the PQBs were also invited on the documents and through a pre-bid conference. The following diagram gives the overview of the transaction structure.



[Source: AAI, 2005a]

The transaction documents consisted of

- Operation Management and Development Agreement (OMDA)
- Lease Deed (LD)
- Shareholders Agreement (SHA)
- State Support Agreement (SSA)
- State Government Support Agreement (SGSA)
- Substitution Agreement (SA)

The OMDA was the mother document under which the AAI, in the interest of the better management of the airport and the overall public interest, granted the right to undertake the functions of operating, maintaining, developing, designing, constructing, upgrading, modernizing, financing and managing the airport to the JVC. The OMDA was for an initial term of 30 years, and subject to certain conditions being fulfilled, extendable by an additional period of 30 years. Airport development under the OMDA was governed by the master plan of the airport – evolved by the JVC with inputs from the MoCA. The OMDA also contained the list of mandatory capital projects that the JVC had to undertake by March 31, 2010.

The OMDA contained a list of aeronautical and permitted non-aeronautical activities that the JVC should undertake, and a list of ‘reserved activities’ (being governmental sovereign functions like customs, immigration etc) that the JVC may not undertake. Stand alone commercial activities also were not permitted. Non-aeronautical activities were to be restricted to 5% of the total land in Delhi and 10% of total land in Mumbai provided that the activities were primarily meant for passengers or air transport industry. Exhibit 6 gives the various activities that would be considered as aeronautical and non-aeronautical.

The documents provided for a three month (extendable to six) transition period during which airport management would be transferred from AAI to JVC at which time the AAI would ‘hand-hold’ the JVC. The current employees of the AAI posted at the airport would be retained there on for a minimum period of three years as AAI employees during which period or at the expiry of which, the JVC would be required to make offers of employment to the employees on terms which were no less beneficial than the current arrangement. The employees would have the option to accept the JVC offer.

The OMDA prescribed objective and subjective service quality standards that the JVC was required to achieve and maintain at the airports, the time frame within which this should be achieved and the liquidated damages for non-achievement. The various default conditions and consequences were specified, including leading up to termination, substitution by a 'substitute' entity as specified in the SA and step in rights for AAI in the case of Force Majeure and emergencies. In addition, a performance bond in the form of Rs 5 billion bank guarantee was to be provided and would be encashable in part or whole under various conditions of non-performance.

The Government of India (GoI) had agreed to use reasonable efforts to set up the Airport Economic Regulatory Authority (AERA) and have it operational within two years from the effective date. Till such time as the AERA commenced regulating aeronautical charges, the same would be approved by the GoI in accordance with the broad principles set out in the agreement.

The JVC was required to charge for aeronautical services at rates as specified by the GoI for the first three years and thereafter determined by AERA/GoI as the case may be under the SSA. Non-aeronautical services would be provided at rates fixed by the JVC in a competitive manner. Essential services would be provided free of charge.

According to the LD, the land would be leased for a period of 30 years from the effective date and would, in the event the JVC renewed the term of the OMDA, be renewed for an additional period of 30 years. The lease was co-terminus with the OMDA. According to the SHA, the AAI, GoI and PSUs would hold 26% of the total share and the private participants would hold 74%. Foreign shareholding was restricted to 49%. Scheduled airlines equity cap was restricted at 10% of aggregate shareholding of all scheduled airlines, while foreign airlines could not have any share holding. The JVC was to have an authorized share capital of Rs 2.5 billion with an initial subscription of Rs 2.0 billion.

Upon the expiry and termination of the OMDA, the AAI would take over all the access required for operating the airport and would have the option to take over all or any of the commercial ancillary assets.

In case a second airport was to be considered within a 150 km radius of the airports given to the JVC, by following a competitive bidding process, the JVC could also participate if it wished to exercise its Right of First Refusal (RoFR). In the event the JVC was not the successful bidder, but its bid was within the range of $\pm 10\%$ of the most competitive bid received, the JVC would have the RoFR by matching the first ranked bid in terms of the selection criteria for the second airport, provided it had satisfactory performance without any material default under any project agreement at the time of exercising the RoFR.

The JVC was to first submit a master plan before the expiry of six months from the date of execution of the OMDA and thereafter update and resubmit the same periodically, every 10 years. The master plan was subject to a 'review' process rather than an 'approval' process.

The JVC would have to acknowledge that it would be its sole responsibility and obligation to obtain all clearances which were required by the applicable laws. The GoI intended to give the undertaking that it would establish a single window clearance mechanism for providing assistance on a best endeavor basis to the JVC. There would be

joint coordination committees to ensure smooth and efficient rendering of GoI services. The over all liabilities of GoI in respect of claims had been kept at Rs 500 million. The principles of tariff fixation had been enclosed in a schedule to the OMDA.

The SGSA would be between the respective state governments (Maharashtra/Delhi) and the JVC. The state governments intended to give undertaking that they would make best efforts in providing support to the company and AAI on matters relating to encroachments, additional land for airport development, surface access to airports, provision of utilities, safety and security requirement at airports etc.

Bid Submission

Review meetings were held with the PQBs on various aspects of the transaction documents, partly at their request. The transaction documents were finalized only by August 30, 2005. These were issued to eight PQBs, with the extended bid date of September 14, 2005. In the interim, the DLF-MANSB consortium had dissolved itself. MANSB was invited to join the GMR-Fraport consortium. Out of eight PQBs, Bharti-Changi and L&T-Piramal-Hochtief pulled out citing stiff performance conditions in the transaction documents. Five consortia submitted their bids for Delhi and six for Mumbai on September 14, 2005. GVK-ACSA did not submit a bid for Delhi. Essel-TAV submitted their bid after 5pm on September 14, 2005. In spite of objections, it was accepted by noting the time of submission.

<i>Bidders for Delhi airport</i>	<i>Bidders for Mumbai airport</i>
Reliance-ASA	Reliance-ASA
GMR-Fraport	GMR-Fraport
DS Construction-Munich	DS Construction-Munich
Sterlite-Macquarie-ADP	Sterlite-Macquarie-ADP
Essel-TAV	Essel-TAV
	GVK-ACSA

5. Post Bid Events (September 2005 – January 2006)

Exhibit 7 gives a summarized flow chart of the post bid events.

September 16, 2005: AAI employees called for a nationwide strike on September 29, 2005, protesting against the privatization. The strike was only a partial success since many of the employees were okay with the ‘favourable’ terms offered to them.

September 19, 2005: The IMG constituted the EC consisting of the FC, LC and GTA. The IMG also suggested that a GRC be constituted for an independent review of the evaluation undertaken by the EC.

September 22, 2005: The technical bids were opened for evaluation by the EC.

October 10, 2005: The MoCA constituted a GRC to evaluate the EC report. The GRC was under the chair of Mr Raghunath Menon, the Additional Secretary of MoCA and seven other members.

November 21-24, 2005: The EC placed its reports before the IMG, announcing the two short listed consortia as Reliance-ASA and GMR-Fraport based on the qualifying marks of 80%:

<i>Per cent</i>		
Bidder	Management capability, commitment and value add	Development capability, commitment and value add
Delhi Airport		
Reliance-ASA	80.2	81.0
GMR-Fraport	84.9	80.1
DS Construction-Munich	72.7	69.9
Sterlite-Macquarie-ADP	57.0	61.9
Essel-TAV	39.2	40.3
Mumbai Airport		
Reliance-ASA	80.4	80.2
GMR-Fraport	84.9	92.7
DS Construction-Munich	72.7	54.1
Sterlite-Macquarie-ADP	57.0	55.1
Essel-TAV	37.1	28.3
GVK-ACSA	75.8	59.3

[Source: Thakurta and Majumdar, 2005]

The finding of the EC vis-à-vis the GMR-Fraport consortium was that bid was good but there were certain areas of weakness in relation to the experience on Indian retail, handling of HR issues in ownership change situation, providing of multiple nominations for management and support positions. These deficiencies were common to both Delhi and Mumbai airports. In addition, the evaluation report of the Delhi airport also noted that the initial development plan was unsuitable for implementation in its current form.

The finding of the EC vis-à-vis the Reliance-ASA consortium noted that the bid was very strong with a committed Indian partner and an experienced airport operator. ASA, Mexico had approximately 60 airports under its control in Mexico itself. They had experience in the area of airport development, master planning, retail, and freight. With specific reference to Mumbai, the experience of ASA in dealing with encroachments was also highlighted.

The EC report was placed before the IMG where the member representing the Planning Commission (PC), Mr Gajendra Haldea, raised several objections on the short listing of the two PQBs. He objected to the complete process and took a view that there was a possibility of bias in the eligibility criteria and in the evaluation of the same. He also had raised the issue that Frankfurt airport ranked 42 and Mexico airport ranked 119 among the top 135 airports in 2005 survey. Mumbai airport had ranked 120. Issues pertaining to the conflict of interest of the consultants ABN Amro and AMSS were raised. ABN Amro had named Reliance and GMR amongst their top five borrowers.

On reviewing the EC report, the GRC was of the view that the evaluation was broadly consistent. However, there could be marginal variations in certain individual criteria due to inherent subjectivity in the evaluation process. The GRC also listed several areas where the EC had gone beyond the scope of the RFP.

December 02, 2005: There was a further meeting of the IMG to consider the EC and GRC reports. The IMG did not come to any consensus. However, they made a few recommendations to the EGoM including that the GMR consortium should clearly indicate the specific personnel who would take the key management and development roles for the airport. Recommendations also included that each of the bidders should be bound to invest the funds to carry out the plans and strategies as highlighted in their bid documents.

On the conflict of interest, an opinion of the Attorney General (AG) had been sought. He opined that there was no conflict.

December 03, 2005: A cabinet note dated December 03, 2005 prepared for the EGoM stated that the GRC, after conducting an independent review, was of the view that while no apparent bias or prejudice was evident for or against any individual bidders, “a majority of the evaluation criteria, as stipulated in the RFP documents, are necessarily subjective in nature and therefore it would have been difficult to allocate a purely objective marking across all bidders.”

The note also observed that the IMG had expressed their concern about the way the marks were allotted and weightage given to different parameters. The system of awarding marks by 'consensus opinion' rather than by working out averages of marks given by individual evaluators was also questioned.

“There was also concern about the fact that one of the bidders (DS Construction) who had selected Munich airport as a partner was rejected, while another (Reliance) who selected ASA, Mexico had actually qualified ... This was in spite of the fact that Munich airport is ranked much higher than Mexico.”

According to the note, the EC had adopted an approach that was different from the one indicated in the RFP documents. While the EC agreed that there was indeed such a discrepancy, they claimed that such an action had been done after due consideration and applied equitably to all bidders.

The note also observed that the IMG members were of the view that the EC should own responsibility for the evaluation. The EC report had, through a disclaimer, completely absolved the consultants of any responsibility of their evaluation in any manner.

The relevant paragraph of the disclaimer read as follows: “While due care has been taken in the preparation of this report, neither (the consultants) ABN Amro/Airplan nor their employees or advisors make any representations or warranty, express or implied, or accept any responsibility or liability, whatsoever, in respect of any statements or omissions herein, or the accuracy, completeness or reliability of this report, and shall incur no liability under any law, statute, rules or regulations as to the accuracy, reliability or completeness of this report, even if any loss or damages is caused by any act or omission on the part of ABN Amro/Airplan or their employees or advisors, whether negligent or otherwise.”

“After discussion, the EC agreed that the disclaimer would be changed to indicate they owned responsibility for the evaluation. They however wanted to be indemnified against any financial/legal suits.” The AG’s opinion had been sought on this matter. He clarified

that the EC had worked under the guidance and supervision of senior AAI officials and hence could be indemnified.

It was also agreed that the bidders should be legally bound to carry out the plans and strategies and invest funds as enunciated in their bid documents. “Appropriate undertakings for this should be obtained before the final selection,” according to the cabinet note.

It went on to add that the IMG had reached a consensus on asking the GMR-Fraport consortium to confirm the names of the people who would undertake key management and development roles in view of the multiple nominations in each position for both airports.

The note also observed that Mr Gajendra Haldea was of the view that some government agency or the IMG should also take responsibility for the evaluation of the bids. Mr Haldea had also insisted that a fresh technical evaluation be undertaken by the IMG and only those bidders who were “non-responsive in terms of the mandatory conditions should be disqualified” and that this should be done before the financial bids were opened.

December 05, 2005: The EGoM asked the IMG for a ‘firm’ recommendation on bidders without any dilution in the technical qualification norms and wanted final recommendations within two weeks. Accordingly, the EC was asked by IMG to strictly adhere to the RFP documents and award marks again

December 07, 2005: The MoCA said that all six bidders were in the final round of bidding. No one was disqualified on technical grounds at this juncture. The MoCA decided to have the technical bids re-evaluated based on complaints of a ‘biased’ approach adopted by the technical advisor, Air Plan.

December 14, 2005: The revised evaluation by the EC reflected marginal changes:

Bidder	Per cent			
	Management capability, commitment and value add		Development capability, commitment and value add	
	Old	New	Old	New
Delhi Airport				
Reliance-ASA	80.2	80.9	81.0	81.0
GMR-Fraport	84.9	84.7	80.1	80.1
DS Construction-Munich	72.7	73.1	69.9	70.5
Sterlite-Macquarie-ADP	57.0	57.0	61.9	61.9
Essel-TAV	39.2	37.6	40.3	41.4
Mumbai Airport				
Reliance-ASA	80.4	81.0	80.2	80.2
GMR-Fraport	84.9	84.7	92.7	92.7
DS Construction-Munich	72.7	73.1	54.1	54.7
Sterlite-Macquarie-ADP	57.0	57.0	55.1	65.1
Essel-TAV	37.1	35.5	28.3	29.4
GVK-ACSA	75.8	76.0	59.3	59.3

[Source: GMR, 2006]

The IMG discussed the issue of subjectivity in the EC's marks. The issue that marks given to Reliance-ASA consortium appeared to be high was raised by Member Finance, AAI, and Chairman, AAI. The IMG again failed to reach a unanimous conclusion.

December 15, 2005: Parliamentarians belonging to the Left parties and the regional Samajwadi Party walked out of the Lok Sabha after their demand that the entire bidding process be scrapped immediately was not accepted by the government. They had alleged that the consultants had close business links with the bidders.

While Mr Praful Patel claimed that the bidding process was fair, two leftist legislators -- Nilotpal Basu of the Communist Party of India-Marxist and Abani Roy of the Revolutionary Socialist Party -- wrote to the UPA chair, Sonia Gandhi, complaining of 'large-scale irregularities' in the bidding process. The communists demanded that the government allow the AAI to select its own joint venture partners from any country in the world for the modernization of the airports.

December 20, 2005: The subsidiary of Reliance, which was driving their consortium, wrote to Mr Pranab Mukherjee on December 20, 2005 arguing that claims to the effect that the bidding process was manipulated were 'unfounded.'

The letter stated that the survey by Skytrax ranking airports all over the world did not take into account the operational capabilities of the surveyed airports. Other surveys conducted by organisations like AETRA and J D Power, which seek to measure different sets of parameters, were qualitative in nature and based on passenger opinions which were largely subjective.

Reacting to the charge that there was 'conflict of interest' between the consultants and the Reliance Group, the company claimed that both ABN Amro and AMSS had worked with almost all top companies in India. "If the logic put forward is taken to its logical conclusion, it would be difficult to find any consultant for the bid."

It was further contended that AMSS acted as the legal advisors to Reliance Industries Limited for the de-merger scheme and not to the bidder, which belonged to the Anil Dhirubhai Ambani Enterprise Group headed by Mr Anil Ambani. This group was one of the two companies as a result of the de-merger.

Regarding the flaws that had been pointed out in the various stages of the bidding process, the letter said that a three-stage bid was an accepted and common process followed by the GoI as well as governments worldwide for infrastructure projects. The letter added that the government, in its competitive bidding guidelines for procurement of power, recommended a similar multi-stage bid involving a separate EOI, technical and financial bid stages with elimination at each stage.

It also sought to dispute the view that the bidding process was not competitive, by stating, "at the time of submission of bids, there was enough competitive pressure and that is what matters."

The letter also expressed the view that because the evaluation criteria for technical bids were known after April 2005 when the RFP was issued, "it is inexplicable why were such objections (that the technical evaluation was subjective and that bidders could change

their plans) not raised earlier...The allegation of bias in eligibility criteria is clearly an afterthought and should have been raised before the bid submission.”

December 21, 2005: The EGoM, noting the failure of IMG to reach a conclusion, decided to set up the CoS headed by the Cabinet Secretary to help it prepare the final recommendations on the bidding process for modernizing Delhi and Mumbai airports. The PC was a special invitee to this EGoM meeting.

December 24, 2005: The CoS constituted the GETE headed by Mr E Sreedharan to examine the evaluation process since it did not have the requisite technical expertise and desired the process to be undertaken by an independent committee. The Prime Minister’s Office was said to have discouraged rebidding for the project since it had already been delayed.

The scope of GETE was:

- An overall validation of the evaluation process, including calibration of the qualifying cut-off and sensitivity analysis. The sensitivity analysis would cover the impact of inter- se weightages of sub-criteria as well as scoring.
- Addressing the issues raised by the members of IMG about the evaluation process.
- An overall technical assessment of transparency and fairness of the evaluation process, including steps required, if any, to achieve a transparent and fair outcome.
- Providing suggestions for improving the selection procedure for joint venture partners in future.

January 9, 2006: The CoS considered the GETE report submitted on January 7, 2006. Exhibit 8 gives excerpts from this report. The key GETE conclusions were:

- There has been certain technical flaws in the technical evaluation process.
- Assignment of marks to sub-factors was not done before the technical evaluation was commenced.
- Marks have been reassessed on four principles:
 - Weightages were assigned to sub-factors equally. (The EC had assigned the weightages on a ‘subjective’ basis).
 - Since the non-OECD experience of ASA was only in airport development and not in operations, giving high marks to this was not in conformity with the RFP. (The EC had given 75% marks).
 - The marks for the current non-aeronautical revenue share of the bidders were rescaled to begin at 50% (from 75%) for the ‘required’ 40% share.
 - The marks for the proposed three year staff absorption share were rescaled to begin at 0% (from 50%) for the minimum 40% share.
- A liberal attitude was shown by the EC to the Reliance-ASA consortium to get marks just above 80% and thus get qualified.
- On reassessment, marks of Reliance-ASA are 74.6 for Delhi and 75.0 for Mumbai. Hence, Reliance-ASA is not qualified.
- If the same yardsticks are used for GMR, it still scores more than 80% and hence is qualified.

- If the same yardsticks are used for other bidders, they will not score more than 80% and hence are not qualified.

The GETE suggested the following as the way forward:

- There is no need to scrap the current process or invite fresh bids.
- The GMR financial bid for both the airports to be opened and the airport with best advantage to the country be awarded.
- The other airport needs to be taken up for restructuring and modernization through a special purpose vehicle (SPV) route on the lines of DMRC. AAI equity should not be more than 50% in this SPV, which could tie up with foreign airport operators.

The CoS endorsed the recommendation of GETE of disqualifying the Reliance-ASA bid. The Delhi airport would be taken up for development by GMR on priority due to the Commonwealth Games in 2010. The Mumbai airport may be included in the next round of bids along with Chennai and Kolkata. It was also noted that each bidder would have invested about Rs 300-400 million in preparing the bid for one airport.

January 11, 2006: The EGoM reviewed the CoS recommendations, they sought actual revised markings of all bidders from GETE.

January 17, 2006: The GETE submitted their second report. Exhibit 8 gives excerpts from the GETE second report. As expected, while the marks for the other bidders did change, none other than GMR-Fraport scored more than 80%. The relative rankings based on the total of the 'management development' and 'technical development' scores remained the same.

The revised technical evaluation score summary was as given below:

S No	Name of the Bidder	Management Capability		Development Capability
		Pre GETE	Post GETE	
Delhi Airport				
1	Reliance-ASA	80.9	74.8	81.0
2	GMR-Fraport	84.7	81.7	80.1
3	DS Construction-Munich	73.1	73.3	70.5
4	Sterlite-Macquarie-ADP	57.0	53.5	61.9
5	Essel-TAV	37.6	40.4	41.4
Mumbai Airport				
1	Reliance-ASA	81.0	74.8	80.2
2	GMR-Fraport	84.7	81.7	92.7
3	DS Construction-Munich	73.1	73.3	54.7
4	Sterlite-Macquarie-ADP	57.0	53.5	65.1
5	Essel-TAV	35.5	38.3	29.4
6	GVK-ACSA	76.0	73.0	59.3

[Source: SC, 2006]

January 24, 2006: As the EGoM gathered to decide on the airports modernization project, the stakes were going up. The traffic had grown in a better than expected manner during

the past two years (Exhibit 9). The outcome of this project would have significant implications for future airport and general infrastructure development projects.

6. EGoM's Decision and the Subsequent Events

On January 24, the EGoM met and took various decisions. These were announced by MoCA/AAI on January 31, 2006:

- GMR-Fraport is the only technically qualified bidder for both the airports
- Financial bids of the top four technical bidders will be opened
- GMR-Fraport is given the choice of selecting the airport subject to matching the highest financial bid since they are the only technically qualified bidder.
- The other airport (not chosen by GMR-Fraport) will be awarded to the highest financial bidder amongst three bidders. This is essential because the government can't afford to wait for another bidding process which is time consuming. Government has declared technical cut-off marks of 50% for this airport.

The financial bids were opened on January 31, 2006.

Per cent

S No	Name of the Bidder	Management Capability		Development Capability	Financial Bid
		Pre GETE	Post GETE		
Delhi Airport					
1	Reliance-ASA	80.9	74.8	81.0	45.99
2	GMR-Fraport	84.7	81.7	80.1	43.64
3	DS Construction-Munich	73.1	73.3	70.5	40.15
4	Sterlite-Macquarie-ADP	57.0	53.5	61.9	37.04
5	Essel-TAV	37.6	40.4	41.4	Bid not opened
Mumbai Airport					
1	Reliance-ASA	81.0	74.8	80.2	21.33
2	GMR-Fraport	84.7	81.7	92.7	33.03
3	DS Construction-Munich	73.1	73.3	54.7	28.12
4	Sterlite-Macquarie-ADP	57.0	53.5	65.1	Bid not opened
5	Essel-TAV	35.5	38.3	29.4	Bid not opened
6	GVK-ACSA	76.0	73.0	59.3	38.70

[Source: SC, 2006]

On January 31, the following decisions were made:

- GMR-Fraport chose Delhi airport and matched the highest bid of Reliance ASA.
- GMR-Fraport was selected for Delhi airport
- Mumbai airport was awarded to GVK-ACSA.

EGoM approved the selection of GMR-Fraport for Delhi and GVK-ACSA for Mumbai and forwarded it to the Cabinet for approval.

Reaction of the Losing Bidder

Based on the EGoM decision, Reliance Airport Developers Private Limited filed a writ petition under Article 226 of the Constitution in the High Court of Delhi on February 2, 2006. They made the following allegations against AAI and the Union of India:

- i. An arbitrary decision making process which was discriminatory in practice was adopted for awarding the contract.
- ii. The rule of law and all norms governed by it were violated, in the haste to meet a perceived, imaginary and self imposed deadline for awarding the contract with complete impunity and State Largesse was distributed without any regard to fairness or to the public interest.
- iii. An open and transparent procedure for the evaluation and consideration of the tenders was not followed and the terms and conditions of evaluation were changed on an ad hoc basis, only to exclude the Petitioner and favour the GVK Industries Ltd.
- iv. The report given by the EC/Advisors named in the tender were rejected/reviewed for no reason, in violation of the terms of the tender. A procedure alien to the tender process was adopted without any basis in law, by constituting a committee to review the evaluation of the experts in regard of the technical qualification. The process of the re-evaluation committee was also in violation of the principles of natural justice and vitiated by arbitrariness and discrimination, as only the bid of the Petitioner was re-evaluated and neither the procedure nor the final report was disclosed to the Petitioner. Further, there was no justification for repeated evaluations when the evaluation process had been thoroughly undertaken.
- v. No reasons were cited/recorded in writing for departing from the terms of the tender.
- vi. Two yardsticks were followed in evaluating the bids. In the case of the Delhi airport, where the Petitioner was technically qualified and its financial bid was the highest, GMR Infrastructure Ltd was allowed to match the highest bidder. Assuming that the methodology of giving preference to technically qualified bidder in awarding the airport was correct, the same methodology should have been applied in the case of Mumbai airport as well. Instead, the Petitioner who was technically the most qualified bidder for Mumbai was not even given a chance to meet the highest financial bid as was done in favour of GMR Infrastructure Ltd for the Delhi airport. Thus there was a complete depart from the procedure adopted for the award of the Delhi airport, on the basis of the technical capability of the bidders, in respect of the Mumbai airport.
- vii. The procedure followed in opening the financial bid was illegal and suffered from irregularity and arbitrariness. No declared or transparent procedure was followed and the decision making process was varied on an ad hoc basis, at the whim and fancies of the authorities.

- viii. The key strategic objectives of world class development and expansion and world class airport management were ignored in determining the successful bidder for Mumbai airport.

The Court's Decision

A division bench of the High Court dismissed the writ petition on April 21, 2006, on the primary ground that the EGoM had absolute discretion in the matter of choosing the modalities.

The petitioner appealed to the Supreme Court on April 24, 2006. The Supreme Court also dismissed the petition on November 07, 2006.

7. Lessons Learned

A lot of thought should be given to the RFP including the bid structure, constitution of committees and contingency planning (especially if none or only one had qualified).

While the bid structure was reasonably detailed, it still did not include factors like the development of an integrated terminal (between arrival and departure, different airlines, domestic and international and with other modes). The weightages of sub-factors had not been specified, leading to debates on whether they should be weighted equally or based on 'perceived' importance. Minimum thresholds were not clearly specified in all cases as mandatory. The scoring scale between the threshold and the maximum was left open.

The constitution of one of the committees was criticized on the grounds of conflict of interest. The creation of additional committees was also criticized, since a prior thought out process was not specified.

While the RFP had envisaged ties in the outcome of the bid, it had not recognized the situation of none or one qualifying. Unfortunately, this is what happened, leading to EGoM having to use its power of 'absolute discretion'.

Norms during the bidding process need to be specified and complied with. Adherence to deadlines, responsibility of the bidders in identifying and bringing to notice deficiencies in the bid document during pre bid meetings, discretion on the part of bidders in independently communicating with sensitive stakeholders (decision makers, media etc), and deciding modifications in the evaluation by the EC, if essential, prior to opening of the bids would be examples.

The learning raises a few questions, sensitivity to which may be more important than having a specific answer.

Questions specific to this bid:

- Should the GETE report have been accepted, especially since it revises the Reliance score to below cut off?

- Should GMR have been given a choice? Or should they have been given the airport where there would have been the best value for GoI on opening the financial bids? (GMR's choice of Delhi airport effectively got Reliance out of the bid).
- Should GMR, while being given the choice, have been asked to match the highest financial bid? What if the financial bid among the top four had been significantly higher than GMR's?
- Should the "other" airport have been rebid? What are the implications of rebidding?
- For the "other" airport, should the opportunity to match the highest financial bid have been given in order of the technical rank rather than treating all above 50%/top 4 equally?
- If a key criteria for the EGoM was to come up with a framework by which no winning bid for a specific airport should be known apriori, to avoid possible accusations of bias, then what choices did the EGoM have?

Questions in general:

- Is there a danger of over determination in the contractual parameters? (One of the interested parties with rich experience walked out of the bidding process due to their not getting a satisfactory answer on how some of the parameters would be monitored and penalized for non-compliance). This would also depend on the state of maturity of the sector.
- Is the pool of bidders being restricted by requirements such as Foreign Direct Investment caps, a foreign player having to be a constituent of the bid consortia, and limits on airline participation? These issues, however, need to be examined in the broader context of the national policy on foreign exchange flows, ability to bring in new technology and processes, and scope economies between airlines and airports versus conflict of interest, respectively. In the latter case, the maritime sector in India has permitted bids for container terminals both by shipping lines and by the then monopoly container rail operator. What are appropriate requirements for pre qualifying bidders?
- Is economic regulation required, especially for tariff setting of aeronautical charges?
- What are the implications for the next round of airport privatization bids? What are the implications for the privatization process in other infrastructure sectors?
- In this context, are revenue shares of 30-50 % as in the airport bid sustainable? Are these reflective of early entrant strategies?

In conclusion, with this privatization process, India has managed to do what many other countries in the world have not yet attempted, but would like to do. This is all the more significant, given that the privatization is of the airports of the political and commercial capitals of the country.

Exhibit 1

Scope and Members of the Committees Involved in the Bidding Process

1. Empowered Group of Ministers (EGoM)

Constituted by NDA Government on September 11, 2003. EGoM was reconstituted on June 15, 2004, by the UPA Government.

Scope:

- Decisions on key issues
- Build consensus among various allies of the ruling coalition government

Members:

- Pranab Mukherjee, Minister of Defence (Chair)
- Hans Raj Bhardwaj, Minister of Law & Justice
- P Chidambaram, Minister of Finance
- Kamal Nath, Minister of Commerce & Industry
- Praful Patel, Minister of State (Independent Charge) of the MoCA

2. Inter-Ministerial Group (IMG)

Constituted by MoCA in October 2003 to assist EGoM. IMG was reconstituted in October 2004.

Scope:

- Bureaucratic team overseeing the transaction
- Debate key issues with representative of various ministries
- Approve draft put up by execution team and transaction approach

Members:

- V Subramanian, Additional Secretary & Financial Advisor, MoCA (Chair)
- P K Basu, JS, Department of Disinvestment, Ministry of Finance
- P K Deb, Joint Secretary, Department of Economic Affairs, Ministry of Finance
- L Ramalingam, Chairman, AAI
- V D V Prasad Rao, Member (Finance), AAI
- O P Shukla, Joint Secretary & Legal Advisor, Ministry of Law & Justice
- S N A Zaidi, Joint Secretary, MoCA

3. Evaluation Committee (EC)

Constituted by IMG on September 19, 2005.

Scope:

- Originate transaction structure
- Pre-qualification criteria
- Co-ordination with bidders
- Finalize transaction structure and invite bids
- Negotiate with bidders and finalize documents
- Move final documents for appropriate GoI approvals

Members:

- V K Kalra, Executive Director - Key Infrastructure Division, AAI.
- ABN Amro (FC)
Michael Lambert, MD
Manikkan S, Director
- Air Plan (GTA)
Rajesh Srivastava, Country Director
John Rogers, Program Director
- AMSS (LC)

4. Government Review Committee (GRC)

Constituted by MoCA on October 10, 2005.

Scope:

- Independent review of the evaluation undertaken by the EC

Members:

- Additional Secretary & Financial Adviser, MoCA (Chair)
- Chairman, AAI
- Executive Director, KID-AAI
- Joint Secretary, MoCA
- Joint Secretary, Ministry of Finance
- Member (Finance), AAI
- Member (Planning), AAI
- SRO (Infrastructure), PC

5. Committee of Secretaries (CoS)

Constituted by EGoM on December 21, 2005.

Scope:

- Recommend the selection of appropriate joint venture partners

Members:

- B K Chaturvedi, Cabinet Secretary (Chair)
- Rakesh Mohan, Secretary, Department of Economic Affairs
- Ajay Prasad, Secretary, MoCA
- Rajeeva Ratna Shah, Member Secretary, PC
- T K Viswanathan, Secretary, Department of Legal Affairs

6. Group of Eminent Technical Experts (GETE)

Constituted by CoS on December 24, 2005.

Scope:

- Overall validation of the evaluation process, including calibration of the qualifying cut-off and sensitivity analysis. The sensitivity analysis will cover the impact of inter-se weightages of sub-criteria as well as scoring.
- The issues raised by the Members of IMG about the evaluation process

- An overall technical assessment of transparency and fairness of the evaluation process, including steps required, if any, to achieve a transparent and fair outcome
- Suggestions for improving the selection procedure for Joint Venture Partners in future

Members:

- E Sreedharan, MD, DMRC (Chair)
- R Sivadasan, Finance Commissioner, Ministry of Railways
- Satendra Singh, Director General of Civil Aviation

[Source: GMR, 2006]

Exhibit 2

Government Objectives and Decisions, and Bid Structure (Excerpts from ITREOI)

Government Objectives and Decisions

GoI has a number of key and other objectives in relation to the airports.

Key Transaction Objectives

GoI key transaction objectives are:

- **World Class Development and Expansion**
Ensure world class phased development and expansion such that the new JVC's meet their commitments through the timely provision of high quality airport infrastructure (on both the airside and landside) to meet the growing demand.
- **World Class Airport Management**
Ensure the creation of world class airport management systems that are implemented in a timely manner through the selection of serious, committed successful bidders with suitable operational expertise, managerial and financial capability, financial commitment and the commitment to provide quality airport services.

Other Transaction Objectives

In addition to the key transaction objectives, other transaction objectives include:

- Timely completion and certainty of closure, with minimal residual risks
- Smooth transition of operations, under concession agreements
- Appropriate regulation - achieving economic regulation of aeronautical assets that is fair, commercially and economically appropriate, transparent, predictable, consistent and stable while protecting the interests of users and ensuring that the airports are operated in accordance with world standards
- Fair and equitable treatment of AAI employees, including preservation of accrued entitlements
- Diversity of ownership between Delhi and Mumbai airports, to enhance competition, encourage innovation and allow competitive benchmarking

The GoI's key and other transaction objectives will form part of the EOI and bid evaluation criteria. The GoI reserves the right to vary these objectives.

Consortium Related Matters

Networth

Each prospective bidder must have a networth in excess of Rs 5,000 million as per the most recent audited accounts. In the event that the prospective bidder is a consortium, the combined net worth of only the Prime Members shall be considered.

Lead Member of the Consortium

In the event that the prospective bidder is a consortium, each consortium must nominate a lead member who would be the authorized representative of the consortium. Entities will be prohibited from participating in more than one consortium submitting an EOI for the same airport.

Entities in a Disqualified Consortium

Entities of a consortium that has been disqualified (except Entity(ies) who have been disqualified for probity, security or related reasons) at the EOI stage can participate with a PQB subject to prior

written approval of AAI. Notwithstanding any such written approval, such changes should not affect the quality and operational capability of the PQB.

Airport Operator

Each prospective bidder must be an airport operator or have at least one airport operator in its consortium.

Airport operators will be required, at the least, to enter into a service performance contract acceptable to AAI. Additional weighting will be given to prospective bidders with airport operators proposing to hold equity of no less than 10% in the JV Company.

Ownership Restrictions

Cross-Ownership

AAI has decided to impose cross-ownership restrictions between Delhi and Mumbai airports, which will preclude:

- (a) Any common ownership by successful bidders with common prime members throughout the term of the concession period
- (b) Any common ownership or common involvement by an airport operator via participation through a service performance contract

Interested parties may lodge an EOI for both Delhi and Mumbai airports. If pre-qualified for both airports, bidders may bid for both airports but on the basis that only one bid may be successful.

Airline Participation

Equity ownership in the JVCs by scheduled airlines, cargo airlines and their group entities is restricted to 5%. However, group entities of scheduled airlines and cargo airlines that are existing airport operators as on the date of issue of this document are exempted from this restriction.

Foreign Ownership

The JVC will be subject to a 74% foreign ownership limit as per the prevailing FDI guidelines on sectoral limits (and as amended from time to time).

Lock-in

The successful bidder or the entities in its consortium (where applicable) will be subject to a suitable lock-in period which will be determined subsequently in the process.

Bid Structure

AAI intends the selection of joint venture partners for the transactions to be through an international competitive bidding process. The expected bid structure and an indicative timetable are set out below. AAI currently contemplates that the bidding for both the airports will be run on a broadly concurrent basis. However, AAI reserves the right to change the structure and timing of any aspect of the bid process at its absolute discretion at any stage.

Stage 1 - EOI (February - June 2004)

Stage 1 of the bid process comprises:

- Notifying entities of the commencement of the EOI stage
- Obtaining non-binding EOIs from Interested parties
- Shortlisting prospective bidders for inclusion in the next stage of the bid process

Prospective bidders will be short-listed for inclusion in the next stage of the bid process based on information provided in their EOI. The selection of PQB will be on the basis of pre-decided

evaluation criteria. In shortlisting PQB, AAI will have regard to the relative quality of each candidate and its prospective capacity and commitment to satisfy GoI's stated key and other transaction objectives and any other matters which AAI considers relevant.

Stage 2 - RFP (June - August 2004)

Stage 2 will involve the preparation and lodgement of full, legally binding bids by PQB shortlisted from Stage 1.

The main steps in Stage 2 are:

- Notification to PQB of Stage 2 selection
- Execution of confidentiality deeds by PQB
- Interaction with PQB
- Issue of detailed information memoranda, RFP and draft documentation
- Provision of business, traffic and legal review data (possibly in CD ROM form) together with possible updated information
- AAI/MoCA airport management and head office presentations
- Airport site visits
- Possible technical site inspections
- Limited written question and answer process
- Discussions with regulatory authorities
- Pre-bid confirmation of acceptance of draft documentation
- Lodgement of Stage 2 bids

Stage 2 bids will be required to be legally binding.

It is currently anticipated that Stage 2 bids will be required to be lodged in August 2004.

Finalization of the Transactions

AAI's intention is to finalize the transactions for both the airports as soon as possible following the lodgement and review of Stage 2 offers. Accordingly, AAI will be seeking maximum certainty, clarity and unconditionality in the bids lodged.

AAI's overall objective is to complete the transaction for both the airports by not later than September, 2004.

[Source: AAI, 2004]

Exhibit 3

Macroeconomic Perspective (Excerpts from ITREOI)

Investment Highlights

- Strong policy commitment to privatization and structural reforms
- Indian macroeconomic indicators are sound with real Gross Domestic Product (GDP) growth between 7.5 – 8.0% expected in 2003-04², low inflation and interest rates, stable currency and a comfortable balance of payments situation.
- Certain features of economic growth indicate that the strong Compounded Annual Growth Rate (CAGR) of 6.2% in air traffic (as measured by aircraft movements) over the past 5 years is expected to continue:
 - Rapidly growing international trade and investment
 - Increasing share of industry and services in GDP
 - Fast growing leisure travel market
- Delhi and Mumbai are trophy hub airport assets and international gateways, accounting for 49% of passenger traffic and 59% of cargo traffic handled by airports in India in the financial year ending March 31, 2003
- Both airports benefit from large catchment areas and the respective regions served by the airports are popular tourist destinations which have exhibited rapid growth
- A long term concession with the possible extension of such concession period
- Significant potential to increase efficiencies and non-aeronautical revenues
- Opportunity to acquire 74% stake in each airport company
- No restrictions on foreign ownership of the 74% stake on offer to private partners

Indian Macroeconomic Scenario

During the 1990s, successive Indian governments pursued wide-ranging reforms aimed at economic and financial liberalization. Structural reforms included tax reform and a reduction in the role of government in key industry and service sectors. Over the last few years, a number of public sector units have been privatized. Certain key sectors (telecommunications, banking, insurance) are no longer public monopolies and private/ foreign competition has been allowed.

The Indian economy has progressively become more open. Import licensing for most capital and intermediate goods has been abolished and that for manufactured consumer goods and agricultural products has been removed in stages. With the exception of agricultural tariffs, unweighted average tariffs have shown a sharp decline. India has gradually been moving towards current account convertibility while maintaining controls on the capital account. The financial sector has seen far reaching banking and capital market reform. In the current financial year, investments by foreign institutional investors till date has already exceeded twice the highest inflow previously recorded.

Reforms have paid off as key indicators show healthy growth in the industrial and services sectors, low inflation and interest rates, strong balance of payments and foreign exchange reserves with currency appreciation. Real GDP growth in the financial year ending March 31, 2004 is expected to be 7.5-8.0%.

		1980s	1990s	92/93-96/97	97/98-01/02	2002/03
Real GDP growth (CAGR)	%	5.8	5.8	8.7	5.5	4.4
Industry	%	7.0	5.8	7.6	4.5	6.1
Services	%	6.9	7.6	7.5	8.1	7.1
Investment	% GDP	22.0	23.0	23.3	22.5	22.1
Public	% GDP	10.0	7.8	8.0	6.6	6.3
Private	% GDP	12.1	15.2	15.3	15.9	15.7
WPI Inflation	%	8.0	8.1	8.7	4.9	2.5
General Government Deficit	% GDP	8.1	7.8	7.2	9.3	10.4
Current Account Balance	% GDP	-2.1	-1.4	-1.2	-0.7	1.0
External Reserves	months imports	3.3	5.6	5.9	7.0	11.0

[Source: "India: Sustaining Reform, Reducing Poverty," The World Bank, July 2003]

Political consensus underpins further liberalization of the economy. If growth enabling policies remain in place, the global economic landscape could alter fundamentally as developing economies like India become a major force. With a relatively large proportion of its population in the working age group, India's favorable demographics will allow it to generate the savings and investment rates required to drive growth. The more favorable environment and prospects for the Indian economy is encouraging globally focused companies to increase their involvement with India. With the entry of multinationals in the Indian market, there is now little distinction between domestic success and global success. Successful Indian firms are looking to increase their share of global markets via both organic and inorganic growth strategies. Surging economic growth has had a direct impact on air traffic (aircraft movements) which has grown at a CAGR of 6.2% over the last 5 years. This is expected to continue as domestic and international traffic and cargo growth over 2002-03 to 2006-07 is forecast to be 5-7.5% per annum³.

Civil Aviation Sector Reform

The civil aviation sector currently has two policies viz. the Domestic Air Transport Policy⁴ and the Policy on Airport Infrastructure of 1997⁵. The Domestic Air Transport Policy removed barriers to entry of private airlines in domestic air transport. Foreign equity participation up to 40% was allowed, with no direct or indirect participation from foreign airlines. For cargo airlines, India has an open skies policy and all foreign airlines are allowed to operate cargo services without any restrictions. The Policy on Airport Infrastructure sets out objectives for development of airport infrastructure and private sector participation. Foreign equity participation in airports is allowed up to 74% with automatic approval, and up to 100% with special permission.

In 2003 the MoCA constituted a committee to review the institutional and regulatory framework governing the civil aviation sector. The first report submitted by the committee in November 2003 has laid out a draft Civil Aviation Policy⁶ which is under consideration.

Legislative and Regulatory Framework

The civil aviation sector in India is governed by two acts of Parliament: (a) the Aircraft Act 1934 provides for the control of the manufacture, possession, use, operation, sale, import and export of aircraft; and (b) the AAI Act 1994 provides for the constitution of AAI and the vesting of the airports in AAI.

Aviation oversight functions are currently distributed between the MoCA⁷, AAI, DGCA and BCAS. (The appendix to this exhibit gives further details.) MoCA is responsible for the formulation of national policies and programmes for development and regulation of Civil Aviation and for devising and implementing schemes for orderly growth and expansion of civil air transport, its functions also extend to overseeing the provision of airport facilities, air traffic services and carriage of passengers and goods by air.

The DGCA is the principal regulatory body in the field of Civil Aviation and is responsible for regulation of air transport services to/from/within India and for formulation and enforcement of civil air regulations, air safety and airworthiness standards. It also co-ordinates all regulatory functions with the International Civil Aviation Organization.

The BCAS is responsible for laying down the standards of pre-embarkation security and antisabotage measures in respect of civil flights in India, as well as monitoring the enforcement of the security measures. Actual enforcement on the ground is entrusted to the respective State/Union Territory Police and Central Industrial Security Force.

AAI undertakes to administer and manage airports and civil enclaves where air transport services are operated, all aeronautical communication stations, and all incidental matters. Domestic air transport services are provided by Indian Airlines and private domestic airlines and international air transport services are provided by Air India and Indian Airlines (on select routes) and foreign airlines.

In accordance with the Civil Aviation Sector Reform programme, it is also proposed that an independent economic regulator will be established for the sector.

Overview of AAI

AAI, an undertaking of the GoI, was formed on April 01, 1995, under the AAI Act, 1994 by merging the National Airports Authority and the International Airports Authority of India. Currently, it manages 11 international airports, 83 domestic civil airports and 28 civil passenger enclaves at defence airfields. In addition, it also controls the entire Indian airspace (excluding the special user airspace) and provides Air Traffic Control Services over it and adjoining oceanic areas.

During the financial year ending March 31, 2003, AAI airports together handled almost 44 million passengers, 982,000 million tons cargo and 561,000 aircraft movements. In the same year, AAI is estimated to have registered revenues of Rs 23.85 billion (US\$ 518 million⁸) with an Earnings before Interest Tax and Depreciation/Amortisation (EBITDA) margin of 36%. At March 31, 2003, it had total assets of Rs 54.50 billion (US\$ 1.19 billion) at a debt equity ratio of 0.10.

The bulk of AAI's revenues accrue from the collection of Route Navigation Facilities Charges, Landing, Housing & Parking Charges, Terminal Navigational Landing Charges, and Cargo Charges at its airports. In addition to these charges, a passenger service fee per embarking passenger is also recovered. Non-aeronautical revenues have considerable potential for growth as the average passenger spend at duty free shops at Indian airports is considered to be much lower than the global average.

AAI, MoCA and State Governments have been exploring alternatives for development/modernization of major airports through private sector participation. The concession agreement for the greenfield Bangalore International Airport with a private consortium including Siemens Project Ventures, Flughafen Zuerich and Larsen & Toubro is expected to be executed in the near future.

Delhi Airport

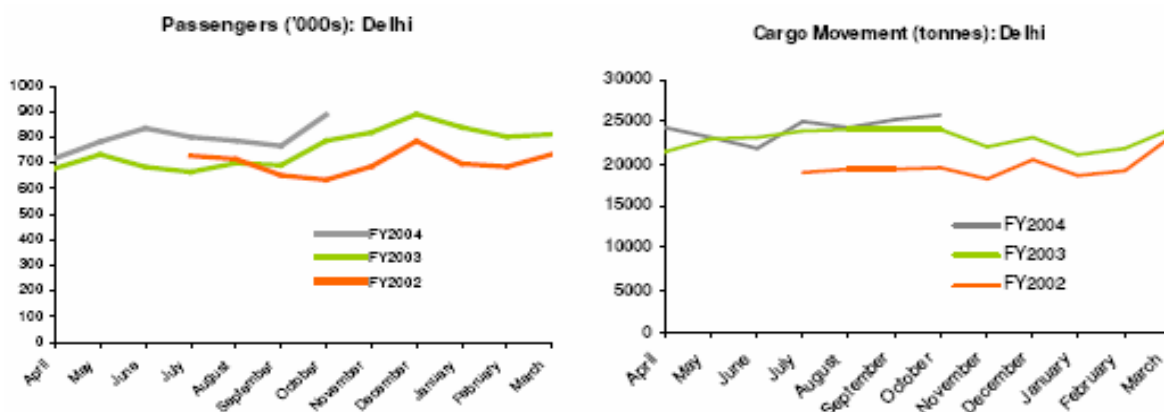
Delhi is the national capital of India and is located in north India. It is the financial and commercial hub of northern India and the location of most foreign embassies. It is also the Indian headquarters of a number of global corporations such as Coca Cola, General Motors, GE, Honda, Mobil-Exxon, Sony and Vivendi. Many banks and financial institutions in India have their headquarters in Delhi.

Spread over an area of 22 sq km, the Indira Gandhi International Airport (IATA code DEL) is situated on the southern outskirts of the city, approximately 15 km from the city center. It offers excellent opportunities for development and expansion. The airport serves as the major international gateway for the northern and north-western parts of India which are particularly attractive tourist destinations (eg Rajasthan, Delhi-Agra-Jaipur circuit). In the financial year ending March 31, 2003, it accounted for 21% of passenger movements and 28% of cargo handled by airports in India.

Domestic flights link the city to all the metropolitan cities and many other cities in the country. International flights link Delhi to various international destinations such as London, Dubai, Singapore, Hong Kong, Amsterdam, Frankfurt and New York. According to the winter 2003 schedule, the airport is served by 49 international airlines and 4 domestic airlines. The airport offers connections to a large number of countries through 60 international flights every week.

The airport has two runways and separate terminal complexes for domestic and international operations with the domestic complex consisting of three buildings.

In the financial year ending March 31, 2003, Delhi airport handled 9.1 million passengers of which 58% were domestic passengers and the remainder international. The total cargo traffic at Delhi airport in the financial year ending March 31, 2003 was approximately 276,000 tons with domestic cargo accounting for 28% of the total and the remaining being the share of international cargo. The airport offers services 24 hours a day, seven days a week, and the pattern of passenger and cargo traffic is relatively stable throughout the year.



Traffic has also exhibited steady growth as evidenced in the table below:

	1998-2003 (CAGR)	2002-2003 (year on year)
Passenger Traffic		
Domestic	4.8%	9.8%
International	0.9%	3.5%
Total	3.1%	7.0%
Cargo Handled		
Domestic	10.9%	20.9%
International	4.9%	17.5%
Total	6.4%	18.5%

During the financial year ending March 31, 2003, Delhi airport reported revenues of Rs 3.69 billion (US\$ 80 million), which reflects the revenue base of the JV company that will be set up to manage the airport. During the period 1999-00 to 2002-03, this revenue stream of Delhi airport has grown at a CAGR of 10.5%. During the financial year ending March 31, 2003, the airport reported EBITDA of Rs 2.21 billion (US\$ 48 million) on this revenue stream, indicating an EBITDA margin of around 60%.

The main source of revenue at Delhi airport is aeronautical services contributing 42% of the total revenues in the financial year ending March 31, 2003. In the same year, the share of cargo revenue was 27% while commercial and other revenues accounted for the remaining 31%.

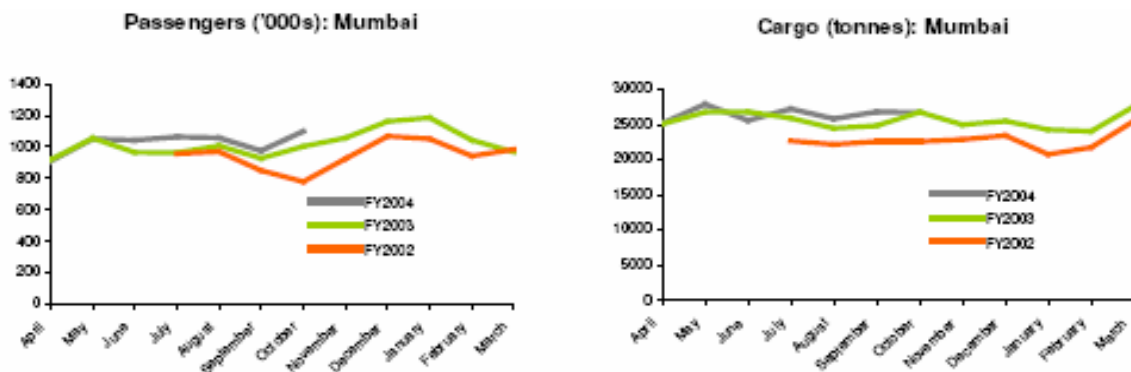
Mumbai Airport

Mumbai is the capital of the western state of Maharashtra, a highly industrialized state and one of the leading beneficiaries of foreign and domestic investments since the onset of economic liberalization. Mumbai is the financial and commercial hub of India and the headquarters of most domestic and multinational banks, financial institutions and insurance companies in India. The city is the main center for capital market related activities and is home to the country's two largest stock exchanges. Most large Indian corporate houses have their headquarters based in Mumbai. Indian operations of various multinationals such as AT&T, Daimler Chrysler, P&G and Shell are headquartered in Mumbai.

Spread over an area of 7.6 sq km, the Chhatrapati Shivaji International Airport (IATA code BOM) is located inside the city, towards the north and is conveniently connected to the rest of the city by road and the local rail network. The airport is the major international gateway to the industrial states of Maharashtra and Gujarat and is an important hub for domestic traffic. In the financial year ending March 31, 2003, it accounted for 28% of passenger movements and 31% of cargo handled by airports in India.

Domestic flights link Mumbai to all the metropolitan cities and many other cities in the country. International flights link Mumbai to various international destinations such as London, Dubai, Singapore, Hong Kong, Sydney, Frankfurt and New York. According to the winter 2003 schedule, the airport is served by 41 international airlines and 5 domestic airlines. The airport offers connections to a large number of countries through 63 international flights every week. The airport has two runways and separate terminal complexes for domestic and international operations.

In the financial year ending March 31, 2003, Mumbai airport handled 12.3 million passengers of which 59% were domestic passengers and the remainder international. The total cargo traffic at Mumbai airport in the financial year ending March 31, 2003, was about 308,000 tons with domestic cargo accounting for 27% of the total and the remaining being the share of international cargo. The airport offers services 24 hours a day, seven days a week, and the pattern of passenger and cargo traffic is relatively stable throughout the year.



Traffic has also exhibited steady growth as evidenced in the table below:

	1998-2003 (CAGR)	2002-2003 (year on year)
Passenger Traffic		
Domestic	3.3%	9.9%
International	0.8%	2.9%
Total	2.2%	6.9%
Cargo Handled		
Domestic	7.7%	10.0%
International	2.7%	12.1%
Total	3.9%	11.5%

During the financial year ending March 31, 2003, Mumbai airport reported revenues of Rs 4.23 billion (US\$ 92 million), which reflects the revenue base of the JV company that will be set up to manage the airport. During the period 1999-00 to 2002-03, this revenue stream of Mumbai airport has grown at a CAGR of 9.5%. During the financial year ending March 31, 2003, the airport reported EBITDA of Rs 2.27 billion (US\$ 49 million) on this revenue stream, indicating an EBITDA margin of 54%.

The main source of revenue at Mumbai airport is aeronautical services contributing 50% of the total revenues in the financial year ending March 31, 2003. In the same year, the share of cargo revenue⁹ was 18% while commercial and other revenues accounted for the remaining 32%.

Appendix: Key Functions and Major Participants in the Civil Aviation Sector

Functionality	Organisation	Specific Functions
Civil aviation policy and regulation	MCA	<ul style="list-style-type: none"> - Administers the legislative framework for the sector - Drafts legislative proposals and regulations - Provides advice to the GOI on developments and changes for the sector - Administrative oversight over public sector - organisations in the sector including DGCA, Bureau of Civil Aviation Security (BCAS) and AAI - Implementation of bilateral air services agreements with foreign countries - Economic regulation
Regulatory standards and licensing	DGCA	<ul style="list-style-type: none"> - Air safety regulation - Administration of International Civil Aviation Organisation (ICAO) standards - Licensing of airports, air carriers, pilots - Approval to operate scheduled air transport services on a new or altered route - Approval of airline schedules - Registration of civil aircraft - Investigation into air accidents and incidents
Airport infrastructure and services	AAI	<ul style="list-style-type: none"> - Manages, designs, constructs, operates and maintains 126 airports - Provision of passenger facilitation and information systems - Development and management of cargo terminals - Fire fighting and emergency services - Air field services, including apron management - International and domestic slot allocation

Functionality	Organisation	Specific Functions
Security standards and compliance	Bureau of Civil Aviation Security (BCAS)	<ul style="list-style-type: none"> - Establishes standards for pre embarkation security and anti sabotage measures - Conducts checks for assessing security preparedness - Undertakes training programs on aviation security
Air traffic control	AAI at present, or possibly a separate government agency in the future	<ul style="list-style-type: none"> - Controls and manages the entire Indian airspace - Operates air traffic functions en route and on approaches to airports - Taxiing guidance - Flight information service - Alerting service, search and rescue co-ordination
Air transport services domestic air travel	<ul style="list-style-type: none"> - Indian Airlines (100 per cent GOI owned) - Jet Airways - Sahara - Alliance Air (100% subsidiary of Indian Airlines) - Air Deccan 	<ul style="list-style-type: none"> - Domestic air transport services
International Air Travel	<ul style="list-style-type: none"> - Air India (100 per cent GOI owned) - Foreign airlines operating in India - Indian Airlines (100 per cent GOI owned) - Jet Airways, Sahara (limited operations) 	<ul style="list-style-type: none"> - International air transport services
Air Cargo Services	Air cargo operators, domestic and international airlines	
Other airport services:		
Refuelling	Public sector oil companies viz. Indian Oil Corporation, Bharat Petroleum Corporation and Hindustan Petroleum Corporation	
Ground handling (including self handling, excluding handling of cargo)	Air India, Indian Airlines, Jet Airways, Air Sahara, Cambatta Aviation, foreign airlines	
Cargo handling (including express cargo)	Air India, foreign airlines, Cambatta Aviation, AAI, Express Industries Council of India, DHL	
Customs	Customs Department, Ministry of Finance	
Immigration	Immigration Department, Ministry of External Affairs	
Plant and animal quarantine	Ministry of Agriculture	
Health	Ministry of Health and Family Welfare	
Security	Central Industrial Security Force State Police	

Functionality	Organisation	Specific Functions
Meteorological	Indian Meteorological Department, Department of Science and Technology	
Operate shops at terminal	Concessionaires under contract with AAI	
Operate car park	Concessionaires under contract with AAI	

[Source: AAI, 2005a]

¹Website www.airportsindia.org.in

²Speech of Finance Minister of the Government of India, Interim Budget 2004-05

³"*Report of the Committee on a Road Map for the Civil Aviation Sector,*" Ministry of Civil Aviation, Government of India, November 30, 2003

⁴The policy can be accessed at http://civilaviation.nic.in/moca/min_idx.htm

⁵The policy can be accessed at http://civilaviation.nic.in/moca/min_idx.htm

⁶The draft policy can be accessed at <http://civilaviation.nic.in/moca/nccommittereport.pdf>

⁷Website <http://civilaviation.nic.in>

⁸Exchange rate of US\$ 1 = Rs 46

⁹Unlike Delhi, Air India and AAI are together responsible for cargo handling at Mumbai airport and share the revenues accruing there from

[Source: AAI, 2004]

Exhibit 4

Background Information on Bidders

1. Bharti-Changi

Bharti: Bharti Enterprises had successfully focused its strategy on telecom while straddling diverse fields of business. From the creation of 'Airtel,' one of India's well known brands, to becoming the largest manufacturer and exporter of world class telecom terminals under its 'Beetel' brand, Bharti had created a significant position for itself in the global telecommunications sector. Bharti Airtel Ltd was acknowledged as one of India's successful companies, and its flagship brand Airtel, had over 31 million customers across the length and breadth of India.

[<http://www.bharti.com>]

Changi: Changi Airports International Pte Ltd (CAI), formerly known as Changi Airport Managers and Partners, was a wholly owned subsidiary of the Civil Aviation Authority of Singapore (CAAS) – owner-operator of the highly acclaimed Singapore Changi Airport. Besides enforcing high performance standards in airport operations, CAAS also regulated and promoted the development of air transport and adopted a vision to make Changi a global air hub and the world's best airport. As its subsidiary, CAI was formed to pursue investment in foreign airports and offer consultancy services in the entire spectrum of civil aviation. The broad range of services included investment in foreign airports, providing consultancy services in airport development and management, and also training services to overseas airports in areas such as airport commercial management, operational efficiency and customer service.

[http://www.changiairportsinternational.com/aboutus/about_us.htm]

2. L&T-Piramal-Hochtief

L&T: Founded in 1938, Larsen & Toubro Ltd (L&T) was one of Asia's largest vertically integrated engineering and construction conglomerates with additional interests in information technology and electrical business. Serving the core sectors and infrastructure of the economy, L&T had pioneered spectacular achievements in Indian industry. Many of the engineering and construction projects executed by L&T had set new benchmarks in terms of scale, sophistication and speed. So do many buildings, ports, highways, bridges and civil structures around the country, which were widely regarded as landmarks.

[<http://www.larsentoubro.com>]

Piramal: The US\$ 100 million Piramal Holdings Ltd built and developed shopping malls, lifestyle department stores and family entertainment centers. It was a part of Piramal Group. The company had developed over 3.5 million sq feet of retail, residential and office space in Mumbai. The company had built brands such as Crossroads (retail development), Piramyd Megastore (chain of departmental stores), Piramyd Supermarket (food and grocery retail), Jammin (Family Entertainment Center), Peninsula (office complex) and Ashok (residential development).

[http://www.morarjeetextiles.com/shirtings/abt_piramal.htm#5]

Hochtief: Hochtief Airport had positioned itself as one of the leading independent airport managers in the continuously growing market for airport privatizations. Since its foundation in 1997, it had acquired holdings in five large airports (Athens, Düsseldorf, Hamburg, Sydney and Tirana) that together handled a total of over 75 million passengers a year. It had taken over operations of the airport in Tirana, capital of Albania, in early 2005. It held a stake in the UK consulting firm Transport & Logistics. It was part of the Hochtief AG group.

[http://www.hochtief.com/hochtief_en/hochtief?id=476]

3. Sterlite-Macquarie-ADP

Sterlite: The flagship company of Vedanta Resources Plc and a major global player in the nonferrous metals business, Sterlite Industries India Ltd was a leading producer of non-ferrous metals in India. Sterlite had a strong presence in the Indian copper market and was also present in the aluminium and zinc sectors. It was one of the two leading domestic copper producers in India. Sterlite's copper operations included a smelter, refinery, phosphoric acid plant and copper rod plant at Tuticorin in Tamil Nadu, a refinery and copper rod plant at Silvassa in Dadra & Nagar Haveli and one copper mine in Australia.

[<http://sterlite-industries.com/index1.asp>]

Macquarie: Macquarie Airports Group (MAG) was a private equity investment fund. MAG made equity investments in airports and associated infrastructure. MAG's well-balanced portfolio comprised interests in four airports: the large gateway airports of Rome and Sydney (Kingsford Smith) and regional (international) airports of Birmingham and Bristol. Altogether, the airports handled over 62 million passengers per annum.

[<http://www.macquarie.com/uk/infra/mag.htm>]

ADP: Aeroports de Paris (ADP) was a French airport group. The Company operated 14 hub airports in the Paris metropolitan area, with a combined surface area of 6,677 hectares. These included three commercial airports (Paris-Charles de Gaulle, Paris-Orly, Paris-Le Bourget), ten airfields (Chavenay, Chelles, Coulommiers, Etampes, Lognes, Meaux, Persan-Beaumont, Pontoise-Cormeilles, Saint-Cyr and Toussus-le-Noble), and one heliport (Paris-Issy-les-Moulineaux). It also designed and supervised the construction of airports in other countries. ADP had several subsidiaries, which were involved in airport-related assistance, telecommunications, logistics and engineering services. These included the Alyzia group, which provided runway assistance services, SCI Roissy Sogaris, which managed and developed the Aeroports de Paris air freight logistics centre, and ADP Ingenierie, an engineering company that provided design, project design and assistance services to contractors. ADP was converted from a state-owned company to a limited company in July 2005.

[<http://finance.google.com/finance?q=EPA:ADP>]

4. GMR-Fraport

GMR: GMR group, a Rs 25 billion business house, was one of the fastest growing infrastructure organizations in India with interests in airport, power and roads. Employing the public private partnership (PPP) model, the group had successfully implemented several infrastructure projects in India. GMR Infrastructure Ltd was the holding company for all its infrastructure projects. The other focus area of the group was agro-business, with sugar as the main product line.

[<http://www.gmrgroup.co.in>]

Fraport: Fraport AG was a German transport company. As the successful owner and operator of Frankfurt Airport, it was one of the leading companies in the international airport business. Fraport AG held shares in several airports around the world. These were Frankfurt Airport, Antalya International Airport, Cairo International Airport, Jorge Chavez International Airport Lima, Frankfurt Hahn Airport, Flughafen Hannover-Langenhagen and Flughafen Saarbrücken. As of 2004, the company had approximately 24,000 employees - about 15,000 of them in Frankfurt and an annual revenue of about 2 billion Euros.

[<http://www.fraport.com/cms/default/rubrik/2/2228.htm>]

IDF: The third partner of the consortium was the India Development Fund (IDF). IDF, with a corpus of Rs 8.5 billion, was the first fund managed by the IDFC private equity fund for infrastructure. IDFC was a Non-Banking Finance Company engaged in the business of lending money for infrastructure projects. It operated in three predominant areas: transportation, energy and telecommunications.

[www.idfc.com]

5. GVK-ACSA

GVK: The Hyderabad based GVK group was a US \$700 million business conglomerate with a diversified and transnational presence. A saga that had its beginnings in the construction of the Nagarjuna Sagar dam in 1960s, it literally and figuratively lighted up the lives of millions of people. In between construction and power, the GVK conglomerate had established a proven presence in the fields of hospitality, petrochemicals, manufacturing, finance and infrastructure projects and had ventured into the fields of life sciences, IT infrastructure and non-conventional energy.
[<http://www.reachouthyderabad.com/business/bizbom/bom19.htm>]

ACSA: Airports Company South Africa (ACSA) was formed in 1993 and operated South Africa's ten principal airports, including the three major international airports at O R Tambo, Cape Town and Durban. The other seven were domestic airports of Bloemfontein, Port Elizabeth, East London, George, Kimberley, Upington and Pilanesberg. Since 1998, ACSA had a 35-year concession to manage Pilanesberg Airport. ACSA was the largest airports authority in Africa. Together, its 10 airports handled more than 200,000 aircraft landings and 23 million arriving and departing passengers annually.
[<http://www.airports.co.za/home.asp?pid=940>]

6. Reliance-ASA

Reliance: The Reliance Group was India's largest business house with total revenues of over US\$ 22.6 billion. The group's activities included exploration and production of oil and gas, refining and marketing, petrochemicals, textiles, financial services and insurance, power, telecom and infocom initiatives. The group exported its products to more than 100 countries the world over. Reliance Group revenue was equivalent to about 3.5% of India's GDP. The group contributed nearly 10% of the country's indirect tax revenues and over 6% of India's exports. The Reliance Group Companies included: Reliance Industries Ltd, Reliance Capital Ltd, Reliance Industrial Infrastructure Ltd, Reliance Telecom Ltd, Reliance Infocomm Ltd, Reliance General Insurance Company Ltd, Indian Petrochemicals Corporation Ltd and Reliance Energy Ltd.
[<http://www.whatisindia.com/issues/reliance/index.html>]

ASA: There were four airport groups operating in Mexico. Mexican government's Aeropuertos y Servicios Auxiliares (ASA) also known as Grupo Aeroportuario ASA Corporativo and three private sector groups, Grupo Aeroportuario Centro-Norte, Grupo Aeroportuario del Pacifico, and Grupo Aeroportuario del Sureste. ASA's investment during the last three years had reached US \$75 million. An additional \$30 million investment was underway. ASA expansion and remodeling projects involved seven airport terminals throughout Mexico. The projects also contemplated the construction of a new airport terminal in the State of Chiapas at an estimated cost of US \$55 million. Also, the Mexico City's airport expansion project 'Terminal 2' would serve up to 12 million passengers per year.
[<http://strategis.ic.gc.ca/epic/internet/inimr-ri.nsf/en/gr127245e.html>]

7. DS Construction-Munich

DS Construction: A pioneer in PPP infrastructure development and engineering construction in India, with over Rs 90 billion of projects under execution in the highways, expressways, railways and hydro power, DS Construction was actively pursuing privatization of airports and power projects, special economic zones (SEZs) and real estate development. The company had been accredited with an ISO 9001:2000 certification. With a successful track record, it had developed a capability to provide premier technical, management and related services to develop, manage, engineer, build, and operate installations for its clients. The company marked its foray in to the Hydropower sector with the 1000 MW project worth Rs 50 billion in Arunachal Pradesh. It had been awarded two SEZ projects in Haryana and Himachal Pradesh, cumulatively worth Rs 120 billion.
[<http://dsconstructions.com/press/press3.htm>]

Munich: Munich Airport was Germany's second largest airport and ranked eighth among European passenger airports. It was operated by Flughafen München GmbH (FMG) and its subsidiaries. Shareholders of FMG were the Free State of Bavaria (51 per cent), the Federal Republic of Germany (26 per cent) and the city of Munich (23 per cent).

[<http://www.munich-airport.de/EN/Areas/Company/index.html>]

8. DLF-MANSB

DLF: The DLF group had made significant progress in pursuing new business opportunities in hotel, infrastructure and special economic zones. DLF and Laing O'Rourke, UK were strategic partners in several infrastructure projects. Laing O'Rourke was a global leader in construction credited with landmark projects such as the Dubai International Airport, Millennium Tower and the T-5 Airport Terminal in UK. Through this joint venture, the group planned construction of projects in the sectors of expressways and airports. The group was capitalizing on emerging market opportunities to deliver high-end facilities and projects to its wide base of customers by constantly upgrading its internal skills and resource capabilities. In line with its expansion plans, the DLF Group had over 130 million sq ft of development across its businesses, including developed and on-going projects. This comprised over 28 million sq ft of projects that the group had executed under its home, offices and shopping mall segments.

[http://www.dlf-group.com/group_landing.aspx]

MANSB (Eraman): Registered as Malaysia Airports (Niaga) Sdn Bhd (MANSB), Eraman was a wholly owned subsidiary established in 1993 as a retail arm to the Malaysia Airport Holdings Berhad (MAHB). MAHB was the operator and manager of Malaysia's 39 airports, which comprised international, domestic and short take-off and landing ports. As a largest airport retailer in Malaysia, Eraman had more than 40 outlets in four international airports across the country (KLIA, Penang, Kuching and Kota Kinabalu).

[<http://www.eraman-malaysia.com>]

9. Essel-TAV

Essel: Essel Group had diverse national and global business interests, encompassing media programming, broadcast & distribution, specialty packaging, entertainment, telecom and trading, having close synergies particularly with ventures active in the areas of content, distribution/reach and infrastructure/logistics.

[<http://www.esselgroup.com>]

TAV: It was a joint-venture company of TEPE and AKFEN Construction. TEPE Group and AKFEN Holding were large Turkish companies with combined broad interests in institutional, industrial, civil and commercial construction, industrial and commercial products manufacturing, facilities management, insurance, security services recreation and tourism in Turkey and abroad. TAV, established in 1997, was promoting and conducting new business in airport construction, financing, passenger terminal operations and related consulting services on an international basis. It invested, built and operated 1,250,000 sq m of airport facilities, hosted 42.5 million passengers per year, handled 53,000 aircrafts per year, and served more than 300 airline companies.

[http://startnews.tubitak.gov.tr/ankara/presentations/16March_Session4/TAV_NazmiHugul.pdf]

10. Videocon-Methven Corporation

Videocon: Videocon, a US\$ 2.5 billion global conglomerate, was India's leading manufacturer of consumer electronics and white goods. The group operated through four key sectors: consumer durables, colour picture tubes, CRT glass, and oil & gas.

[<http://www.videoconworld.com>]

[Source: Company Websites, December 2006]

Exhibit 5

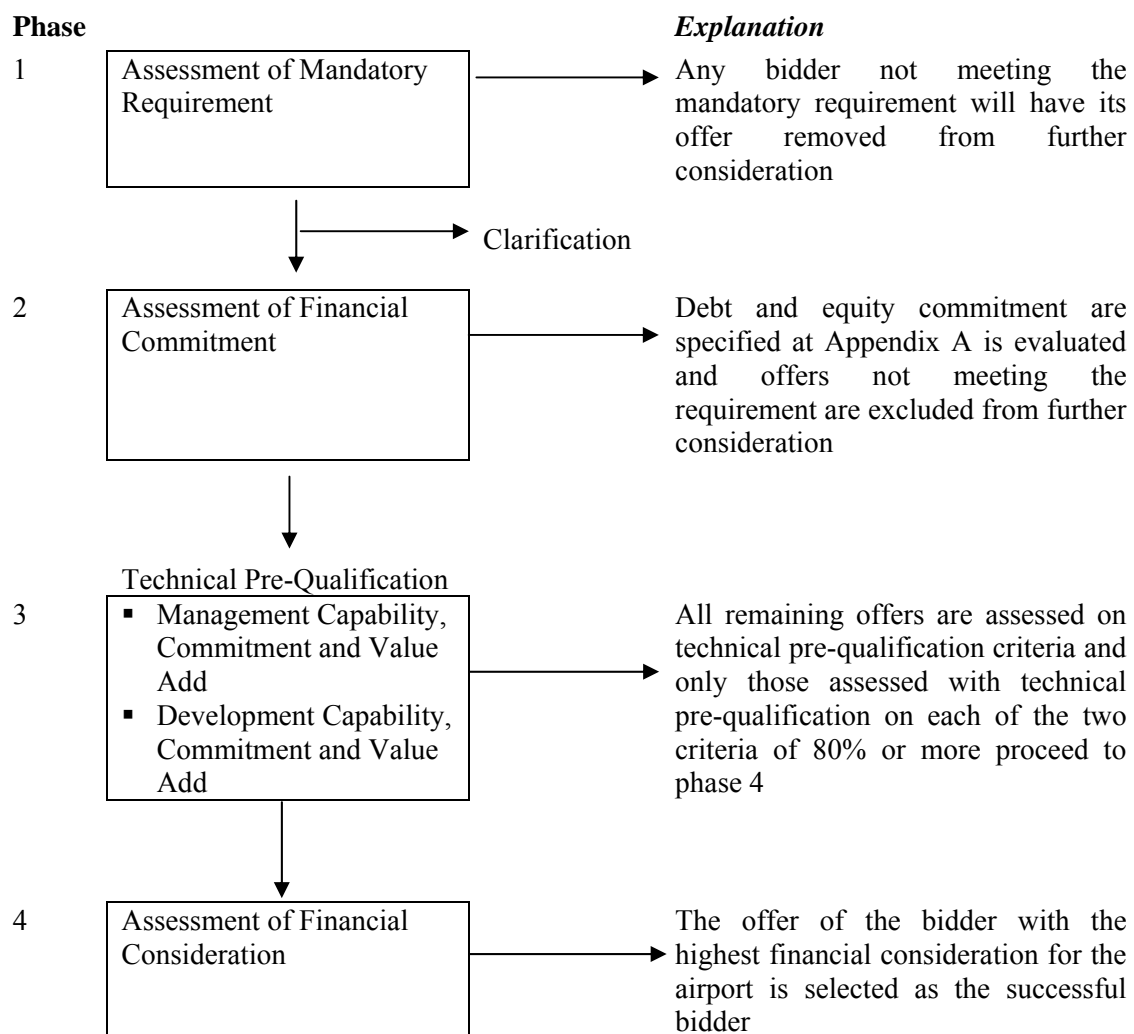
Excerpts from RFP¹

5 Evaluation of Stage 2 Offers

5.1 Overview of Evaluation Process

This section sets out the approach that will be applied by AAI and its advisers when evaluating offers. General guidance in relation to the relative importance of each of the criteria and certain tender requirements are set out below.

The approach to be followed will be undertaken in four phases as set out in summary form in the table below:



The evaluation matrix for phase 2 and phase 3 above is summarized in appendix F.

5.2 Mandatory Requirement

The mandatory requirements for stage 2 offers are as follows:

- Confirmation of acceptance for final transaction documents

¹Modified for easier reading

- Confirmation that the net worth criteria of the bidder as per the requirement in the ITREOI document continues to be fulfilled.
- No consortium member or group entity of a consortium member or nominated airport operator is participating in more than one consortium bidding for the same airport
- Consortium has an airport operator who has relevant and significant experience of operating, managing and developing airports
- Confirm that the offer is capable of acceptance anytime during the bid period
- Confirm that the offer commits the offer or to the mandatory capital projects and the initial development plan is in accord with the development planning principles and the traffic forecasts (It is to be noted that traffic forecasts are only the base level forecasts)
- Equity ownership in the joint venture company by a scheduled airline and their group entities, subject to the exemption of group entities that are existing airport operators
- FDI in the JVC does not exceed 49%
- Minimum equity ownership by Indian entities (other than AAI/GoI public sector entities) in the JVC is 25%
- Provision of suitable probity and security statements
- Lodgement of offer that incorporates all the material required as set out in Appendices A to E, inclusive, in this document
- Submission of bid bond

AAI reserves the right to clarify with bidders any matters set out in the offer, including mandatory requirements, but will accept no additional material additions to the offer already submitted beyond that material directly relevant to the matter or matters being clarified.

5.3 Assessment of Financial Commitment

There is a requirement that the external funding of aeronautical developments at the airport can not be secured against the land and aeronautical assets. It is essential that bidders who proceed through the evaluation process and are assessed as possible JV partners for AAI have the capability to fund the required development of the airport, having regard to the limitation on security for lending for the project.

In order to evidence this there are two requirements:

- The consortium members provide written commitment from their ultimate holding company that the level of equity funding required from their subsidiaries for the first seven years of the implementation of the initial development plan is guaranteed. Each member shall separately certify its equity commitment and the consortium members as a group shall provide a joint and several undertaking the full equity requirement is committed by each member of the consortium.
- Committed bank lending must be available for the level of debt required for the first seven years of the implementation of the initial development plan duly evidenced by commitment letters from lenders setting out the agreed terms and conditions.

Any offers that do not meet these requirements will be excluded from further consideration.

Bidders should note that they will need to have put in place suitable arrangements to support their joint and several commitment of equity with a bank guarantee to the same level which will be required to be provided by the selected JV partners of the successful bidder at or prior to effective date.

5.4 Assessment of Technical Pre-Qualification

The technical pre-qualification is based on two global pre-qualification criteria.

- Management Capability, Commitment and Value Add

- Development Capability, Commitment and Value Add

Each of these is assessed in terms of a set of pre-qualification criteria and supporting pre-qualification factors that are detailed in the section 5.6.

The purpose of the technical pre-qualification phase is to ensure that only those bidders that can address the GoI's strategic objectives are evaluated at the final phase of the evaluation process and that only bidders satisfying the benchmark of 80% under the technical pre-qualification requirements are allowed into the final phase of evaluation.

A scoring system will be applied based on the assessment of the evaluation terms of the offer against the technical pre-qualification criteria. Each of the two global pre-qualification criteria is assessed out of a possible 100 marks. The assessment is on an absolute basis not relative as between the offers. Hence there is no predetermined number of offers that will be considered in the final phase.

5.5 Assessment of Financial Consideration

The final phase of the assessment process is the financial consideration.

Offers are sought on the basis of an annual OMDA fee payable as a percentage of gross revenue, aeronautical and non-aeronautical.

A minimum OMDA fee of 5% of gross revenue has been set, which will be subject to bidding. Where the same bidder is the highest bidder for each of CSIA and IGIA, noting the cross ownership restriction, the selection of the successful bidder for the airport will be on the basis that the highest bidder will be declared as the successful bidder for that airport wherein the margin (computed solely as the difference between the % numbers) between the highest offer and the second best offer is the most. Accordingly, the successful bidder for other airport shall be the bidder with the second best offer for that airport provided that bidder is willing to match the highest bidder for that airport.

Further, where the same bidder is the highest bidder for each CSIA and IGIA and that the margin between the highest offer and the second best offer for each of CSIA and IGIA is the same, then the highest bidder will be declared as the successful bidder for that airport where its offer is the highest. The successful bidder for the other airport shall be the bidder with the second best offer for that airport provided that bidder is willing to match the highest bidder for that airport.

In the event that there are two or more bidders for the airport with the same offers, then preferences would be given in the order of the following: (a) level of equity holding of the airport operator (b) percentage of AAI employees being committed to be absorbed.

5.6 Technical Pre-Qualification Criteria and Factors

This section sets out the pre-qualification criteria and pre-qualification factors that will be used to access each of the two global pre-qualification factors (sub-factors).

A Criteria: Management Capability, Commitment and Value Add

Sub-Criteria (i): Management Capability

Pre-Qualification Criteria 1: Experience of the nominated airport operator (weightage: 25)

Each of the following to be supported by documented case studies and relevant statistics (PAX and cargo statistics for each airport nominated)

- 1.1.1 Number, scale and geographic diversity of airports operated and managed by the airport operator with substantial domestic, international and cargo operations including specific role of the airport operator in respect of each of these operations
- 1.1.2 Experience in operating global or regional hub airports, including achieving improved connectivity
- 1.1.3 Track record in route and traffic development and in managing relations with airlines and other key stakeholders
- 1.1.4 The level of service quality performance achieved at major airports managed by the airport operator and trends over the last five years
- 1.1.5 Experience if any, with operating a multi airport system
- 1.1.6 The performance of commercial operations at major airports managed by the airport operators, covering retail, property and other commercial operations, focusing on airports where non aeronautical revenues is 40% or more of total revenue.
- 1.1.7 Performance in turning around and improving aeronautical and non-aero-nautical operation at airports
- 1.1.8 Experience in operating and developing airports in non-OECD countries and a track record in improved performance
- 1.1.9 Experience in proactive environment monitoring, evaluation, planning and implementation of environmental systems and improvements

Pre-Qualification Criteria 2: Experience of the other prime members (separately identifying and evaluating Indian and non-Indian prime member experience on an equal weight basis) (weightage 12.5)

- 1.2.1 Commercial/retail experience
- 1.2.2 Experience with major property development
- 1.2.3 Experience with major infrastructure developments
- 1.2.4 Experience with handling HR issues in ownership change situations

Sub-Criteria (ii): Management Commitment

Pre-Qualification Criteria 1: Commitment of airport operator (weightage 12.5)

- 2.1.1 Level of equity commitment
- 2.1.2 Performance based nature of the airport operator agreement
- 2.1.3 Experience and level of management resources committed to the transaction in each area of airport management including
 - Aeronautical operations
 - Traffic and route development and marketing
 - Cargo handling
 - Slot management
 - Terminal operations
 - Airport retail operations
 - Airport property operations
 - Environmental management

Pre-Qualification Criteria 2: Commitment by other prime members (separately identifying and evaluating Indian prime members) (weightage 12.5)

- 2.2.1 Experience and level of management resources committed by the other prime members in non-aeronautical operations and development

Sub-Criteria (iii): Management Value Add*Pre-Qualification Criteria 1: HR approach (weightage 12.5)*

3.1.1 Approach to and level of commitment to the integration of AAI airport employees into the JVC

3.1.2 Proportion of AAI staff targeted for integration into the JVC by year 3

Pre-Qualification Criteria 2: Transition plan (weightage 12.5)

3.2.1 Transition plan that will facilitate the smooth and timely takeover by the JVC of the operation and management of the airport

Pre-Qualification Criteria 3: Stakeholder management (weightage 6.25)

3.3.1 Systematic and well thought out approach to the management of key stakeholders, including identifying key issues and an issues management strategy

Pre-Qualification Criteria 4: Environmental management (weightage 6.25)

3.4.1 Environmental management plan that clearly and accurately assesses the environmental condition and issues at the airport and has realistic strategies and implementation tasks

Criteria: Development Capability, Commitment and Value Add**Sub-Criteria (i): Development Capability (Experience)***Pre-Qualification Criteria 1: Master planning experience (weightage 7.4)*

- Number of master plans for major international airports completed within the past ten years by the airport operator (provide information on scale of import, role of airport operator in the process and outcomes)
- Geographical spreads of airports for which master plans have been completed within the last ten years
- Completed master plans with similar issues to those faced at the airport (eg international/domestic operations, substantial need of redevelopment, experience with constrained airport site)

*Pre-Qualification Criteria 2: Major airport development experience (weightage 15)***(i) Terminal developments**

- Implementation of 'state of the art' international/domestic terminal complexes at major international airports. Provide information on scale of terminal (design, busy hour, annual service volume), role of airport operator in the development process, date of opening
- Development experience on existing highly regarded terminals worldwide
- Commercially successful terminals (retail)
- Demonstrated experience in terminal incremental development
- Experience in achieving multi terminal connectivity

(ii) Aeronautical developments

- Number of redevelopment projects at multi run way airports with substantial annual aircraft movements (provide information on ATMs)
- Experience in airport development from single to multiple runway configuration

(iii) Cargo Development

- Number of cargo facility developments undertaken within previous ten years providing information on scale of cargo tonnage

(iv) Road and car park developments

- Number of complexity of car and other vehicle on airport parking facilities undertaken within previous ten years
- Airport access road developments undertaken within previous ten years including details of airport access road with complex surface access issues in confined space

(v) Property developments

- Extent and scale of non-aviation developments undertaken at airports within the previous ten years

(vi) Indian development experience

- Number and scale of airport and/or other development projects undertaken/completed in India within the previous ten years

Sub-Criteria (ii): Development Commitment*Pre-Qualification Criteria 1: Master planning (weightage 7.4)*

- Number and disciplines of senior staff experienced in large scale airport master plans
- Geographical spread of experience by senior staff proposed for airport within the previous ten years
- Experience of proposed staff within the previous ten years on airport planning of similar sized airports with similar traffic mix

Pre-Qualification Criteria 2: Major airport development (weightage 7.4)

- Number of senior staff experienced in airport developments with multiple runway configuration
- Number of senior staff experienced in major terminal developments within previous ten years, involving combined international and domestic terminal complexes
- Geographic spread of experience by senior staff proposed for airport within previous ten years
- Experience in implementing major greenfield airport developments over the past ten years

Pre-Qualification Criteria 3: Indian infrastructure development (weightage 7.4)

- Number of senior staff proposed for airport with experience in airport or other relevant development projects in India

Sub-Criteria (iii): Development Value Add (Vision)*Pre-Qualification Criteria 1: Long term vision (weightage 8.9)*

- A long term vision of the airport that maximizes the aeronautical capacity and capability of the airport in a cost effective way
- Innovative solutions to maximize capacity for airfields and terminals on a constrained site
- Innovative solutions to prolong the life of airport assets
- Operating initiatives that prolong the life of airport assets

Pre-Qualification Criteria 2: Development path (weightage 8.9)

- Development cost that represents good value for money, taking into account maintenance cost
- Development path that demonstrates and commits to completion of stage 1 activities prior to its estimated date of completion as identified in the transaction documents
- Development path that matches projected growth in traffic (airfield, passenger and cargo terminals, landside roads and car parks etc)

Pre-Qualification Criteria 3: Flexibility (weightage 8.9)

- Plan able to accommodate changes in traffic mix and traffic level demonstrate that actual traffic growth can be accommodated through incremental development

Pre-Qualification Criteria 4: Aeronautical operations (weightage 8.9)

- Staged development plan that has no significant impact on day to day airfield operations
- The staging of a second airport so as to optimize the use of both airports while meeting in a timely and efficient way the projected traffic growth

Pre-Qualification Criteria 5: Development initiatives (weightage 8.9)

- Interim measures to provide temporary additional capacity and improve level of service
 - Terminals
 - Airfields

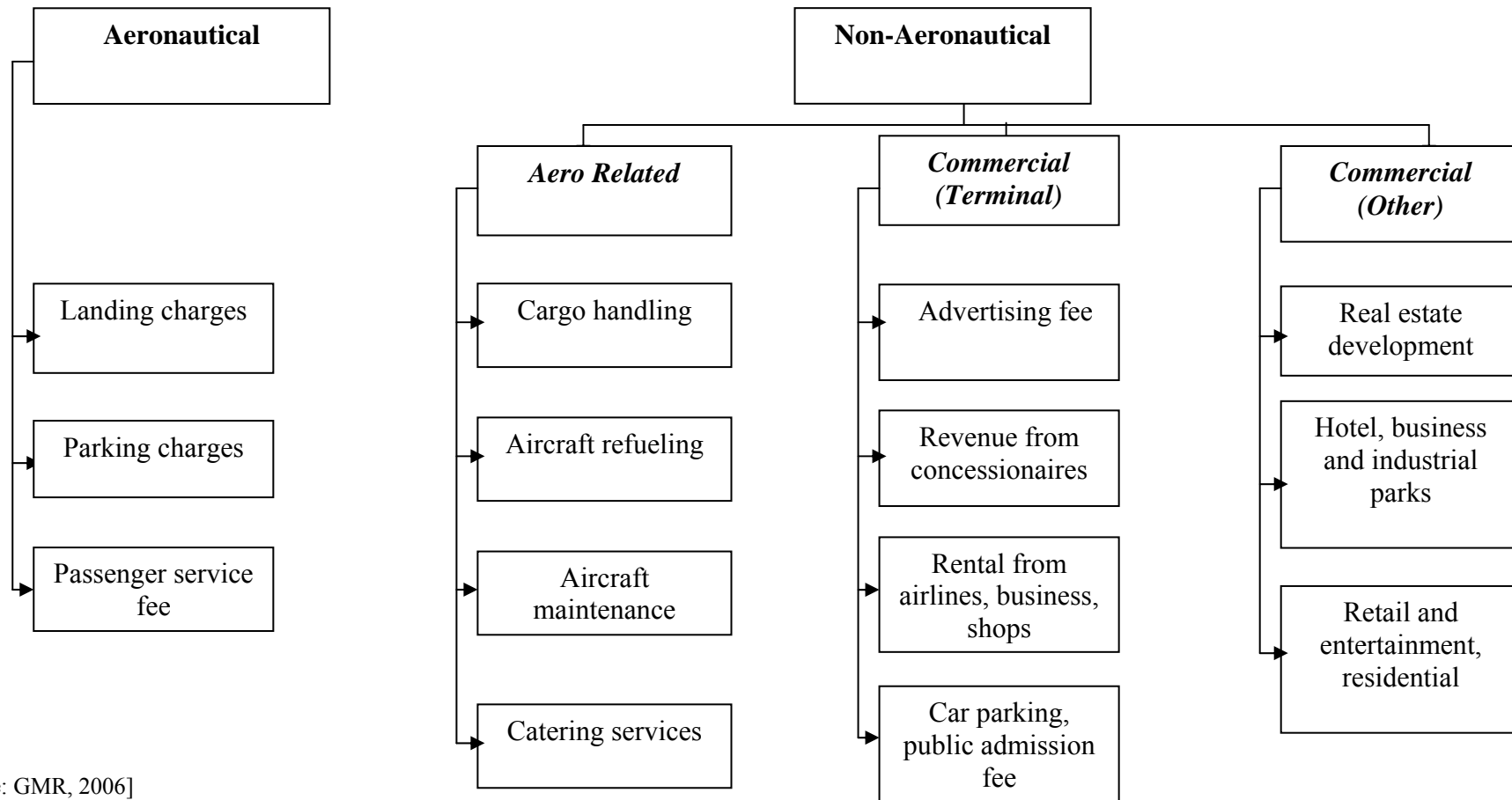
Sub-Criteria (iv): Business Plan

Pre-Qualification Criteria 1: Quality of the business plan (weightage 11.0)

- Realistic environmental review and assessment of key issues and risks factors
- Planning to achieve significant improvements in passenger and cargo flows and service quality with particular emphasis on the first two years of operation and then linked to the implementation of major airport developments
- Realistic strategies and implementation tasks and performance targets for the overall operation of the airport and in each individual area including
 - Aeronautical operations
 - Traffic and route development
 - Cargo handling
 - Passenger processing and terminal operations

[Source: AAI, 2005b]

Exhibit 6 Airport Operator Revenue Streams



[Source: GMR, 2006]

Exhibit 7

Post Bid Events

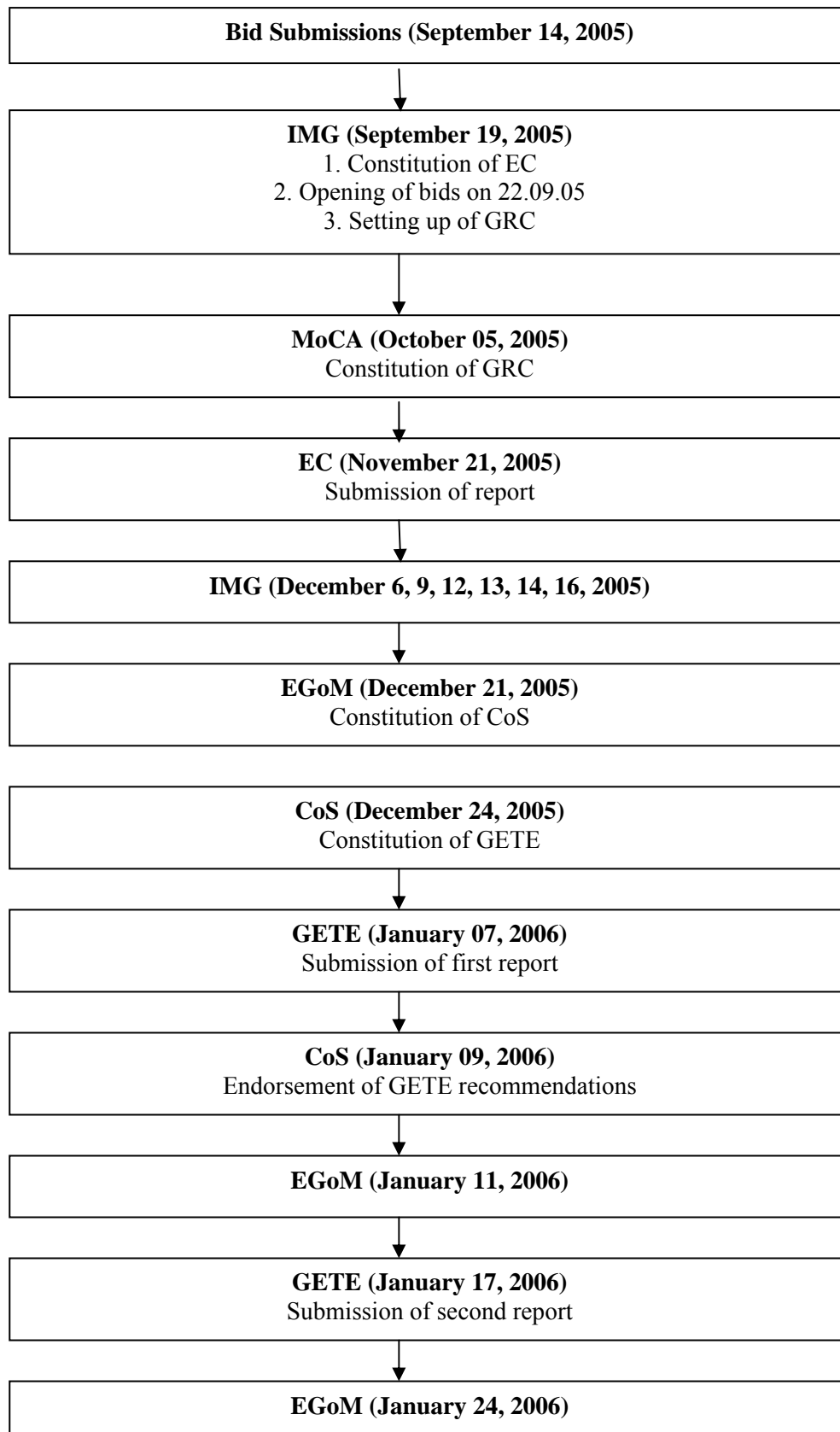


Exhibit 8

Excerpts from GETE Report¹

First Report Dated January 07, 2006

2.1 The GETE had their first meeting and deliberations on Friday, December 30, 2005. The presentation was basically for explaining the contents of the RFP, the approach adopted by the EC in evaluating the technical bids and the views expressed by IMG on the EC evaluation. The EC explained that the weightage marks for the two criteria and sub-criteria were already indicated in the RFP for the information of bidders. Splitting up these marks to the different sub-factors of sub-criteria² was done by the EC based on the mandate given to them by the IMG on query from the GETE, they formed that after the technical bids were opened certain clarifications were invited from bidders mainly to sort out discrepancies in their submittals and not for eliciting additional information or submission of additional documents. EC stated that the assignment of marks for technical evaluation was done strictly based on the submittals of the tenderers.

2.2 The GETE again met on January 02, 2006 when only Shri Sanjay Narayan and Dr. Sihag were present. The consultants were not invited to this meeting. In this meeting Shri Sanjay Narayan handed over to the GETE a copy of the note prepared for the CoS dated December 23, 2005 together with all annexures which also contained details of marks assigned (both original and revised) to the consortiums A to E in The Annexure IX and Appendix II to Annexure XII to the note. In this meeting, the GETE enquired at what stage the apportionment of marks to the sub-factors was done by the EC and whether after assigning these marks, the same had the approval of the IMG. The GETE also wanted to know whether after assigning the marks to the sub-factors, the same were kept in a sealed cover to obviate the possibility of any changes or alterations to these marks during evaluation stage. The GETE also enquired whether a formal Tender Committee was appointed for the technical and financial evaluation of the bids and whether the AAI, as the owner, was associated in the technical evaluation. It was informed to the GETE that there was no Tender Committee per se and the assignment of marks to the sub-factors was done entirely by the EC (The Global Consultants) and at no stage AAI was associated in assessing and assigning the marks. The GETE was informed that the EC had taken about one and a half months to complete this exercise, scrutinizing about 40,000 pages of submissions.

2.3 The GETE again met on January 04, 2006 when ABN Amro's letter dated January 03, 2006 in reply to queries raised was handed over to the GETE. From this letter it appears inter-se weightage and marks to the sub-factors were finalized prior to assigning scores on the offers, but there was no categorical assertion that this was finalized before the exercise was started and kept sealed. We are only pointing out that since these inter-se weightages were not approved by the government and kept sealed, the possibility of these being changed during the course of evaluation cannot be ruled out.

2.4 With all the papers made available to the GETE, the need for seeking further clarification from the EC was not felt. Therefore, they were not invited for any further clarification by the GETE.

3.0 Scrutiny of the evaluation procedure adopted by EC:

3.1.1 We (GETE) did not call for the technical bid papers nor perused the same. We also did not make any attempt for a fresh technical evaluation of the bids by assigning marks to the sub-criteria and sub-factors. Our attempt was to assess whether the EC had assigned weightages and marks in a logical and transparent manner to the sub-factors and whether there has been any bias in favor of or against any of the bidders while assigning marks. For this we relied upon the RFP and the mark sheets attached to the note prepared for the CoS.

¹ Modified for easier reading

² Please refer 'Exhibit 6: Excerpts from RFP,' Section 5.6 on criteria and sub-factors.

3.1.2 While examining the assignments of marks to the various bidders we kept in mind the issues raised by the members of the IMG but we were not solely guided by their views. We also examined in a dispassionate way whether there was any flaw or bias in the exercise of subjectiveness while assigning marks to the different consortiums. Our observations in this matter are briefly given as under-

3.1.3 The Global Consultants prepared ITREOI in January, 2004 which was approved by the IMG in February, 2004 but the appointment of the Global Consultants was approved by EGoM in April, 2004. Thus the consultants started working even before their appointment was approved.

3.1.4 From the report of the GRC, it is seen that the EC has stated that their evaluation was not based merely on the submittals but they relied upon some published statistics, information available within their setup and their own perception and understanding of various aspects of evaluation (Please refer GRC's report on their meeting dated November 23/24, 2005). This is not in conformity to RFP.

4.2 There are 8 pre-qualification criteria in the criteria 'Management Capability, Commitment and Value Add' out of which 4 have further sub-factors. Similarly there are 11 pre-qualification criteria in the criteria 'Development Capability, Commitment and Value Add' out of which 8 have further sub-factors.

4.3 Through allocation of weightage to different sub-criteria were indicated in RFP, weightage to different sub-factors were not indicated but was assigned later by EC based on IMG directions. EC has not confirmed explicitly whether these weightages were assigned before or after opening of bids. Certain anomalies have been observed in the allocation of the weightages. While equal weightage has been allocated to most of the sub-factors, un-equal allocation has been done in two cases (1.2.2 /1.2.3 & 3.1.1/3.1.2). The justification given by EC that these sub-factors are of different importance is not considered satisfactory and convincing because such a logic can apply to many other sub-factors as well. Since weightages of these sub-factors were not mentioned in RFP and allocation of equal weightage has been done in majority of sub-factors, we feel the same concept of equal weightage should have been adopted for these two sub-factors also. By assigning different weightages there is room to suspect that some of the bidders have been favored.

4.4 In sub-factor 1.1.6, the assessment of performance of commercial operations of major airports covering retail property and other commercial operations was to be done focusing on airports having non-aeronautical revenue of 40% or more of total revenue. Though non-aeronautical earnings of bidder A³ are only 37%, but they have been given 75% marks. This is considered to be in non-conformity of the RFP. The explanation of EC that wording of the Clause did not make the 40% mandatory is not convincing. In any case, since the non-aeronautical earnings of bidder A was less than the threshold limit of 40%, assigning a high score of 75% was not justified. This should have been of the order of 40% to 50%.

4.5 In sub-factor 1.1.8, the assessment of operating in non-OECD countries was to be as per the RFP. Bidder A operating in Mexico, which, is an OECD country, has been awarded 75% marks, which is not in conformity to RFP. The explanation given by EC to IMG that the bidder has airport development experience in other developing countries like Ecuador, Uruguay and Guatemala, is not considered convincing. Our considered opinion is the track record in improved performance is also to be judged only in the context of a non-OECD country. Therefore, awarding marks against this item is not considered in conformity to the item in RFP.

4.6 In sub-factor 3.1.2 (proportion of AAI Staff targeted for absorption into JVC by year 3), EC has awarded 50% marks for minimum 40% absorption and remaining 50% on prorata basis between

³ Bidder A: Reliance-ASA, Bidder B: GMR-Fraport, Bidder C: DS Construction-Munich, Bidder D: Sterlite-Macquarie, Bidder E: Essel-TAV, Bidder F: GVK-ACSA

40% to 100% absorption. Since RFP has stipulated 40% absorption as minimum acceptable and additional weightage has been contemplated for a higher proportion of absorption, we feel it is more reasonable and rational to distribute full marks to 100% absorption.

4.7 If moderation of marks for the above mentioned items is done, following reduction in the score of bidder A will take place:

S No	Item	Delhi	Mumbai
(i)	If equal weightage is given to sub-factors 1.2.2 & 1.2.3	1.1	1.1
(ii)	If equal weightage is given to sub-factors 3.1.1 & 3.1.2	0.6	0.5
(iii)	If the marks of sub-factor 1.1.6 given for non-aeronautical revenue less than 40% are reduced from 75 % to 50%	0.7	0.7
(iv)	If score of sub-factor 1.1.8 given for experience in an OECD country, is excluded	2.1	2.1
(v)	If marking system of sub-factor 3.1.2 as modified keeping '0' for 40% absorption and '5' for 100% absorption	1.9	1.6
	Total (i) to (v)	6.4	6.0
	Resultant score of 'A' for criteria 'Management Capability'	74.6	75.0

From the above, it is clear that the above moderation clearly disqualifies bidder A in criteria 4.1.1.

4.8 Modernisation exercise attempted above will not make any material difference in the position of bidders C, D, E and F who will remain still disqualified. In regard to bidder B he will still be well above the qualifying marks of 80%. In fact his position would improve marginally. Therefore, we have not attempted to moderate the marks of the other bidders based on our observations of paras 4.3 to 4.6.

4.9 While scrutinizing the marks for criteria 'Development Capability, Commitment and Value Add' we have the following observations to make:

The GETE have not studied the development plan of this bidder or any other bidder for that matter. We have also not discussed this with the GTA (Air Plan). Considering the type of deficiencies in the developmental plans pointed out by AAI, we feel the marking of bidder A has been on a liberal side in regard to sub-criteria 'Development Value Add.' This will also be the marks if we compare the marks scored by bidder B verses marks scored by bidder A in regard to Delhi airport as brought out under:

	Maximum Score	Score of 'A'	Score of 'B'
Delhi	44.5	43.0	30.2

4.10 Admittedly bidder B has better credentials, for airport development and such vast difference in marks scored by bidder A over bidder B cannot be easily explained. We feel that if the rational approach has been adopted bidder A who now gets qualified by 1.1 marks for Delhi and by 0.3 marks for Mumbai would have been disqualified.

4.11 Since in any case in our view bidder A gets disqualified on the basis of our assessment contained in Para-4.7 above, we are of the opinion that qualifying bidder A technically is not correct.

Second Report Dated January 17, 2006

Based on the methodology adopted by GETE for moderating the marks of bidder A, we have now moderated the scores of all other bidders as well. Based on this exercise, the marks secured by the different bidders are given in a tabulated form separately for Delhi and Mumbai airports.

Moderated Scores (Management Capabilities etc) for Delhi Airport

S No	Weightage	A	B	C	D	E
1.1	25.0	19.6	22.5	17.1	19.7	6.7
1.2	12.5	9.2	9.7	9.7	4.7	2.8
2.1	12.5	9.6	7.1	11.7	6.7	7.5
2.2	12.5	11.3	10.0	11.3	5.0	5.0
3.1	12.5	10.6	10.5	10.9	7.2	6.9
3.2	12.5	11.3	12.5	5.0	7.5	2.5
3.3 & 3.4	12.5	9.4	12.5	7.5	6.3	6.3
Total	100	81.0	84.8	73.2	57.1	37.7
Score as per shift		80.9	84.7	73.1	57.0	37.6
Moderation due to						
(i) If equal weightage is given to sub-factor 1.2.2 and 1.2.3		-1.09	-0.21	-0.02	-0.02	+0.96
(ii) If equal weightage is given to sub-factor 3.1.1 and 3.1.2		-0.60	-0.81	+0.35	-0.32	+1.85
(iii) If the marks of sub-factor 1.1.6 given to A for non-aeronautical revenue less than 40% are reduced from 75% to 50% others no change.		-0.70	0.0	0.0	0.0	0.0
(iv) If score of sub-factor 1.1.8 given for experience in OECD country to A is excluded – others no change.		-2.1	0.0	0.0	0.0	0.0
(v) If marking system of sub-factor 3.1.2 is modified keeping '0' for 40% absorption and '5' for 100% absorption.		-1.60	-1.98	-0.17	-3.13	0.0
Total variation		-6.09	-3.00	+0.16	-3.47	+2.81
Revised score		74.8	81.7	73.3	53.5	40.4

Moderated Scores (Management Capabilities etc) for Mumbai Airport

S No	Weightage	A	B	C	D	E	F
1.1	25.0	19.6	22.5	17.1	19.7	6.7	17.2
1.2	12.5	9.2	9.7	9.7	4.7	2.8	9.5
2.1	12.5	9.6	7.1	11.7	6.7	5.4	8.8
2.2	12.5	11.3	10.0	11.3	5.0	5.0	10.0
3.1	12.5	10.8	10.5	10.9	7.2	6.9	10.5
3.2	12.5	11.3	12.5	5.0	7.5	2.5	11.3
3.3&3.4	12.5	9.4	12.5	7.5	6.3	6.3	8.8
Total	100	81.2	84.8	73.2	57.1	35.6	76.1
Score as per shift		81.0	84.7	73.1	57.0	35.5	76.0
Moderation due to							
(i) If equal weightage is given to sub-factor 1.2.2 and 1.2.3		-1.09	-0.21	-0.02	-0.02	+0.96	-0.23
(ii) If equal weightage is given to sub-factor 3.1.1 and 3.1.2		-0.49	-0.81	+0.35	-0.32	+1.85	-0.81
(iii) If the marks of sub-factor 1.1.6 given to A for non-aeronautical revenue less than 40% are reduced from 75% to 50% others no change		-0.70	0.0	0.0	0.0	0.0	0.0
(iv) If score of sub-factor 1.1.8 given for experience in OECD country to A is excluded-others no change		-2.1	0.0	0.0	0.0	0.0	0.0
(v) If marking system of sub-factor 3.1.2 is modified keeping '0' for 40% absorption and '5' for 100% absorption		-1.82	-1.98	-0.17	-3.13	0.0	-1.98
Total variation		-6.20	-3.00	+0.16	-3.47	+2.81	-3.02
Revised score		74.8	81.7	73.3	53.5	38.3	73.0

[Source: SC, 2006]

Exhibit 9
Key Statistics of Airport Traffic

						% Change		
		2004-05	2003-04	2002-03	2001-02	2004-05 to 2003-04	2003-04 to 2002-03	2002-03 to 2001-02
All Airports								
Aircraft movements (thousands)	International	158	133	116	108	18.8	14.7	7.4
	Domestic	572	506	444	402	13.0	14.0	10.4
	Total	730	639	560	510	14.2	14.1	9.8
Passenger movements (million)	International	19.5	16.6	14.8	13.6	17.5	12.2	8.8
	Domestic	40.1	32.1	28.9	26.4	24.9	11.1	9.5
	Total	59.5	48.7	43.7	40	22.2	11.4	9.3
Cargo movement (thousand tons)	International	825	693	646	560	19.0	7.3	15.4
	Domestic	465	375	333	294	24.0	12.6	13.3
	Total	1290	1068	979	854	20.8	9.1	14.6
Delhi Airport								
Aircrafts movement (thousands)		122	106	93	86	15.1	14.0	8.1
Passenger movement (million)		12.8	10.2	8.8	8.2	25.5	15.9	7.3
Cargo movement (thousand tons)		344	296	276	233	16.2	7.2	18.5
Mumbai Airport								
Aircrafts movement (thousands)		153	137	126	115	11.7	8.7	9.6
Passenger movement (million)		15.7	12.8	11.7	11	22.7	9.4	6.4
Cargo movement (thousand tons)		403	326	308	276	23.6	5.8	11.6

[Source: India Infrastructure, 2006; MoCA, Various Years]

Glossary

AAI	Airports Authority of India
AERA	Airport Economic Regulatory Authority
AG	Attorney General
AMSS	Amarchand & Mangaldas & Suresh A Shroff & Co
BCAS	Bureau of Civil Aviation Security
CAGR	Compounded Annual Growth Rate
CoS	Committee of Secretaries
DGCA	Directorate General of Civil Aviation
DMRC	Delhi Metro Rail Corporation
EBITDA	Earnings before Interest Tax and Depreciation/Amortisation
EC	Evaluation Committee
EGoM	Empowered Group of Ministers
EOI	Expression of Interest
FC	Financial Consultants
GDP	Gross Domestic Product
GETE	Group of Eminent Technical Experts
GoI	Government of India
GRC	Government Review Committee
GTA	Global Technical Advisor
IATA	International Air Transport Association
IMG	Inter Ministerial Group
ITREOI	Invitation to Register an Expressions of Interest
JVC	Joint Venture Company
LC	Legal Consultants
LD	Lease Deed
MoCA	Ministry of Civil Aviation
NDA	National Democratic Alliance
OMDA	Operation Management and Development Agreement
PC	Planning Commission
PPP	Public Private Partnership
PQB	Pre-Qualified Bidders
RFP	Request for Proposal
RoFR	Right of First Refusal
SA	Substitution Agreement
SGSA	State Government Support Agreement
SHA	Shareholders Agreement
SPV	Special Purpose Vehicle
SSA	State Support Agreement
TVA	Thakur, Vaidyanath Aiyar & Co
UPA	United Progressive Alliance

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