MEMORANDUM OF UNDERSTANDING

This Memorandum of Understanding (hereinafter "MoU") is executed at Bengaluru on this 20th day of April, 2017.

AMONG

MINISTRY OF CIVIL AVIATION, GOVERNMENT OF INDIA

AND

GOVERNMENT OF KARNATAKA

AND

AIRPORTS AUTHORITY OF INDIA, a PSU under the Ministry of Civil Aviation.

"Government of Karnataka", "Ministry of Civil Aviation, Government of India" and "Airports Authority of India" shall be collectively referred to as "Parties" and individually as "Party".

1. DEFINITIONS – The terms used in this MoU shall have the same meaning as defined in the Regional Connectivity Scheme (RCS) of the Ministry of Civil Aviation.

2. REGIONAL CONNECTIVITY SCHEME

2.1 The Ministry of Civil Aviation (MoCA), Government of India released the National Civil Aviation Policy 2016 (NCAP 2016). Two of the key objectives of NCAP 2016 are to "enhance regional connectivity through fiscal support and infrastructure development" and to "establish an integrated eco-system which will lead to significant growth of civil aviation sector, which in turn would promote tourism, increase employment and lead to a balanced regional growth". In this regard, MoCA has envisaged a Regional Connectivity Scheme (RCS or the Scheme) for the country.

2.2 The primary objective of the Scheme is to facilitate / stimulate regional air connectivity by making it affordable by supporting airline operators through (1) concessions by Central Government, State Governments and airport operators to reduce the cost of airline operations on regional routes and (2) financial (viability Gap Funding or VGF) support to meet the gap, if

any, between the cost of airline operations and expected revenues on such routes.

2.3 As provided in the NCAP 2016, payment of VGF will be made by the Implementing Agency to the beneficiaries i.e. Selected Airline Operators from the Regional Connectivity Fund (RCF) and the State Governments shall be asked to reimburse the applicable share.

2.4 The Scheme envisages a critical role to be played by the State Governments in terms of granting concessions and reimbursing its applicable share of VGF.

2.5 The Scheme shall be made operational only in States and at airports/heliports (irrespective of ownership by AAI / State Governments / private entities / Ministry of Defence, Government of India) which demonstrate their commitment and support to regional air transport operations by providing concessions as required under the Scheme.

2.6 Responsibility for collection and disbursement of funds under the Scheme, managing the process of seeking reimbursements from State Government for their share of VGF and crediting reimbursement proceeds to RCF will lie with the Implementing Agency.

NOW THEREFORE THIS MOU WITNESSETH AS UNDER:

3. OBJECTIVE OF MoU

3.1 All the Parties would make efforts and assist in promoting the Scheme and making it successful.

3.2 The Parties would ensure their commitment and support to regional air transport operations by providing concessions as required under the RCS.

3.3 The State Government would ensure their timely and complete commitment to VGF as required under the RCS.

3.4 All the Parties would make all possible efforts in providing an easy and quicker approvals for increased participation and timely commencement of operations under the Scheme.

3.5 The Parties would abide by the directives issued by MoCA from time to time in respect of the Scheme.

3.6 The Parties shall carry out their respective obligations under the MOU in good faith.

3.7 This MOU lists the areas of co-operation and commitment / support of the Parties with regards to the enhancement of regional air connectivity as per the RCS.

4. SCOPE OF MoU

4.1 As envisaged in NCAP 2016, the operation of the Scheme will be through a market mechanism where airline operators will assess demand on routes; submit proposals for operating / providing connectivity on such route(s); seek VGF, if any, while committing to certain minimum operating conditions; and the same shall be finalized in interaction with other market participants as provided for in the Scheme. The Selected Airline Operator will be extended concessions and support from Central Government as well as the State Government to operate under the Scheme.

4.2 The Parties will meet their respective obligations and will extend concessions / support under the Scheme as below:

4.2.1 Central Government shall administer the Scheme through the Implementing Agency and provide the following support / concessions:

a) Central Government shall provide its share of VGF under the Scheme which shall be 80% of the total requirement for stakes other than North-Eastern States and Islands, where it shall be 90%.

b) Central Government shall levy an excise duty at a rate of 2% on Aviation Turbine Fuel (ATF) purchased by the Selected Airline Operator from RCS Airports for an initial period of three (3) years from the date of notification of the Scheme.

c) Central Government shall allow Selected Airline Operators to enter into code sharing arrangements as per the prevailing Air Service Agreements with domestic as well as international airlines.

d) Central Government shall provide concessions on Service Tax on tickets, i.e., abatement of service tax on 90% of the taxable value, for an initial period of 1 year from the date of notification of the Scheme.

4.2.2 State Government provide the following concessions:-

a) State Government shall reduce Sales Tax (ST) to 1% or less on ATF at RCS Airports and for RCS flights from other airports located within the state for a period of 10 years;

b) State Government shall provide minimum land, if required, and wherever available free of cost and free from all encumbrances for development and expansion of RCS Airports after due consideration based on extant policy of State on case to case basis. The State Government will coordinate with Government of India to provide rail and metro connectivity to the RCS airports;

c) State Government shall provide security and fire services free of cost at Government RCS Airports, for private RCS Airports, it will be examined on case to case basis.

d) State Government shall provide, or cause to be provided, electricity, water and other utility services at concessional rates only at RCS Government Airports; and

e) State Government shall provide 20% share of VGF determined pursuant to this scheme. The State Government shall need to reimburse its VGF share within 3 months of being asked by the Central Government. In case the State Government does not reimburse, a notice will be sent by the Central Government requiring reimbursement within 1 month of the notice, failing which, the Central Government / Implementing Agency will not consider any further RCS proposals under the Scheme for connecting airports from the State.

f) State Government will examine any additional incentives over and above the incentives being provided under the Scheme by Central Government and State Government, if any policy of the State Government allows to do so.

g) The State Government shall need to continue the concessions as mandated in the NCAP, 2016 and the Scheme document. In case the State Government stops providing the concessions during the tenure of the Scheme, they will be required to resume the concessions immediately. In case the concessions are not resumed within 1 month from the date of discontinuation, the Central Government / Implementing Agency will not consider any further RCS proposals under the Scheme for connecting airports from the State.

Government of Karnataka is liable to resume concession only, in the event of no default from the other two parties to the agreement

Any dispute arises between the parties in the execution of contract that they would enter in to, in pursuance of MoU, that such dispute shall be resolved in the following manner:-

a) Firstly, by mutual discussions.
b) Secondly if not settled by mutual discussion by invoking the provision of Arbitration and Conciliation Act.

4.2.3 Obligations of the Implementing Agency

AAI, as the Implementing Agency for the Scheme on behalf of Ministry of Civil Aviation, Government of India, shall be responsible for the following:

a) Receiving proposals submitted by airline operators and taking necessary administrative action for identification of Selected Airline Operator pursuant to the Scheme;

b) Collection and disbursement of funds - In order to facilitate the collection and disbursement of funds under the Scheme, an escrow account shall be established for this purpose with an identified bank. The Implementing Agency shall be authorized to act as the escrow agent with authority to deposit funds as well as withdraw funds from the escrow account for disbursement of VGF to Selected Airline Operators in accordance with this Scheme;

c) Managing the process of reimbursement of applicable share of State Government: As provided in NCAP 2016, payment of VGF will be made to the Selected Airline Operator from the RCF and the State Governments will be asked to reimburse the applicable share (20% for States other than for North-Eastern States and islands where the ratio will be 10%). The Implementing Agency shall manage this process of seeking reimbursements and crediting reimbursement proceeds to the escrow account; and

d) Any other activities required for implementation of the Scheme, as directed by Ministry of Civil Aviation, Government of India from time to time.

4.3 Obligations / concessions / support under this MoU will be governed by the requirements mentioned under the Scheme and may get amended based on amendments in the Scheme.

5. COMMENCEMENT AND DURATION

5.1 The MoU will be effective from the date of its signature and will be valid till the completion of Tenure of the Scheme or will terminate upon mutual agreement to terminate.

6. MISCELLANEOUS

6.1 Above concessions on VAT/Service Tax/Excise Duty etc. shall be subject to the prevailing tax regime during the Tenure of the Scheme and Tenure of

VGF support, as applicable. Upon transition to GST, rates will be applicable as duly determined under GST and exemptions / concessions shall be given by the Central Government / State Governments only as permissible under the law.

6.2 Each Party shall keep the other Parties duly informed of any matter, which may have an impact on the implementation and performance of the intended cooperation contemplated between the Parties under this MOU.

7. LEGAL SYSTEM AND SETTLEMENT OF DIFFERENCES

7.1 This Memorandum does not generate rights or create any legally binding obligations for the Signatories.

7.2 The Signatories will settle any difference that may arise in the application of this memorandum via consultations within a spirit of cooperation and friendship.

IN WITNESS THEREOF, the Parties have caused this MOU to be executed in three (3) parts and each one shall be treated as original by their duly authorized representatives.

Signed by:

(Usha Padhee)
Joint Secretary
Ministry of Civil Aviation, Government of India

(P.I. Sreevidya)
Deputy Secretary, Infrastructure Development Department
Govt. of Karnataka

(Dr. Guruprasad Mohapatra)
Chairman
Airports Authority of India