MEMORANDUM OF UNDERSTANDING

FOR REGIONAL CONNECTIVITY SCHEME- 'UDAN' OF THE

MINISTRY OF CIVIL AVIATION

This MEMORANDUM OF UNDERSTANDING (hereinafter referred to as "MoU") is executed at Chennai on this day of 8th June, 2017.

AMONG

MINISTRY OF CIVIL AVIATION, GOVERNMENT OF INDIA represented by Smt. Usha Padhee, Joint Secretary, Ministry of Civil Aviation, Government of India (hereinafter referred to as "MOCA") which expression shall unless repugnant to the subject or context thereof, include its successors-in-office, administrators, executors and assignees;

GOVERNMENT OF TAMIL NADU, represented by Shri P.W.C. Davidar, to Government, Transport Department (hereinafter referred to as the "State Government") which expression shall unless repugnant to the subject or context thereof, include its successors-in-office, administrators, executors and assignees;

AIRPORTS AUTHORITY OF INDIA, a Public Sector Undertaking (PSU) under the Ministry of Civil Aviation represented by Dr. Guruprasad Mohapatra, Chairman, Airports Authority of India (hereinafter referred to as "AAI") which expression shall unless repugnant to the subject or context thereof, include its successors-in-office, administrators, executors and assignees;

"Ministry of Civil Aviation, Government of India", "State Government of Tamil Nadu" 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 - UDAN of the Ministry of Civil Aviation.**

2. **REGIONAL CONNECTIVITY SCHEME – Ude Desh ka Aam Nagarik (UDAN)**

2.1 WHEREAS, 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 AND WHEREAS, the primary objective of the Scheme is to facilitate and 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 AND WHEREAS, as provided in the NCAP 2016, payment of Viability Gap Funding (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 AND WHEREAS, the Scheme envisages a critical role to be played by the State Governments in terms of granting concessions and reimbursing its applicable share of Viability Gap Funding (VGF).

2.5 AND WHEREAS, 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 AND WHEREAS, responsibility for collection and disbursement of funds under the Scheme, managing the process of seeking reimbursements from State Government for their share of Viability Gap Funding (VGF) and crediting reimbursement proceeds to Regional Connectivity Fund (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 Regional Connectivity Scheme (RCS) – Ude Desh ka Aam Nagarik (UDAN).

3.3 The State Government would ensure their timely and complete commitment to Viability Gap Funding (VGF) as required under the Regional Connectivity Scheme (RCS) – Ude Desh ka Aam Nagarik (UDAN).

3.4 All the Parties would make all possible efforts in providing 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 and support of the Parties with regards to the enhancement of regional air connectivity as per the Regional Connectivity Scheme (RCS) – Ude Desh Ka Aam Nagarik (UDAN).

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 and providing connectivity on such route(s); seek Viability Gap Funding (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 and support under the Scheme as below:

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

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

b) Central Government shall levy an excise duty at a rate of 2% (two percent) on Aviation Turbine Fuel (ATF) purchased by the Selected Airline Operator from Regional Connectivity Scheme (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% (ninety percent) of the taxable value, for an initial period of one year from the date of notification of the Scheme.

4.2.2 State Government provides the following concessions:-

a) State Government shall levy a concessional rate of Value Added Tax (VAT) on Aviation Turbine Fuel (ATF) at 1% (one percent) for the Regional Connectivity Scheme (RCS) routes.

b) While no additional lands required for Salem Airport and in respect of Hosur and Neyveli are operated and maintained by other operators, if land is required, State Government could consider giving land on lease basis.

c) State Government shall provide security and fire services free of cost at Regional Connectivity Scheme (RCS) Airports;

d) State Government shall provide a certain share as applicable (20% (twenty percent) for States other than for North-Eastern States and island groups where the ratio will be 10% (ten percent)) of Viability Gap Funding (VGF) determined pursuant to this Scheme. The State Government will fund the 20% (twenty percent) of Viability Gap Funding (VGF) as State share from Tamil Nadu Infrastructure Development Fund (TNIDF). The State Government shall need to reimburse its Viability Gap Funding (VGF) share within three 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 one month of the notice, failing which, the Central Government / Implementing Agency will not consider any further Regional Connectivity Scheme (RCS) proposals under the Scheme for connecting airports from the State.

e) State Government is encouraged to consider giving additional incentives including underwriting of seats, etc. over and above the

incentives being provided under the Scheme by Central Government and State Government.

f) 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 one month from the date of discontinuation, the Central Government / Implementing Agency will not consider any further Regional Connectivity Scheme (RCS) proposals under the Scheme for connecting airports from the State.

4.2.3 **Obligations of the Implementing Agency**

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

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

h) 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 Viability Gap Funding (VGF) to Selected Airline Operators in accordance with this Scheme;

i) Managing the process of reimbursement of applicable share of State Government: As provided in National Civil Aviation Policy 2016, payment of Viability Gap Funding (VGF) will be made to the Selected Airline Operator from the Regional Connectivity Fund (RCF) and the State Governments will be asked to reimburse the applicable share (20% (twenty percent) for States other than for North-Eastern States and islands where the ratio will be 10% (ten percent)). The Implementing Agency shall manage this process of seeking reimbursements and crediting reimbursement proceeds to the escrow account; and

j) 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 Memorandum of Understanding (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 Value Added Tax/Service Tax/Excise Duty etc. shall be subject to the prevailing tax regime during the Tenure of the Scheme and Tenure of Viability Gap Funding (VGF) support, as applicable. Upon transition to Goods and Services Tax (GST), rates will be applicable as duly determined under Goods and Services Tax (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 Memorandum of Understanding 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

Witnesses

1. Name and Designation :
With full address

2. Signature :

3. Date :

(P.W.C. Davidar)
Additional Chief Secretary
Government of Tamil Nadu

Witnesses

1. Name and Designation :
With full address

2. Signature :

3. Date :

(Dr. Guruprasad Mohapatra)
Chairman
Airports Authority of India

Witnesses

1. Name and Designation :
With full address

2. Signature :

3. Date :