

©

Kerala Legislature Secretariat  
2023

KERALA NIYAMASABHA PRINTING PRESS

**FIFTEENTH KERALA LEGISLATIVE ASSEMBLY**

**COMMITTEE  
ON  
PUBLIC ACCOUNTS  
(2021-2023)**

**THIRD REPORT**

(Presented on 16<sup>th</sup> March, 2022)



SECRETARIAT OF THE KERALA LEGISLATURE  
THIRUVANANTHAPURAM  
2022

FIFTEENTH KERALA LEGISLATIVE ASSEMBLY

**COMMITTEE  
ON  
PUBLIC ACCOUNTS  
(2021-2023)**

**THIRD REPORT**

**On**

**Paragraphs relating to Electronics and Information  
Technology Department contained in the 6th Report of  
the Comptroller and Auditor General of India for  
the year ended 31<sup>st</sup> March 2014**

## CONTENTS

		<i>Page</i>
Composition of the Committee	..	v
Introduction	..	vii
Report	..	1
Appendices :		
I.	Summary of main Conclusions/ Recommendations	45
II	Notes furnished by Government	47
III	Appendix from AG's Report	124

COMMITTEE ON PUBLIC ACCOUNTS (2021-2023)

*Chairman :*

Shri Sunny Joseph

*Members :*

Shri Manjalamkuzhi Ali

DR K.T. Jaleel

Shri C.H. Kunhambu

Shri Mathew T. Thomas

Shri M. Rajagopalan

Shri A.N. Shamseer

Shri P.S. Supal

Shri Thomas K. Thomas

Shri K.N. Unnikrishnan

Shri M.Vincent

*Legislature Secretariat :*

Shri S.V. Unnikrishnan Nair, Secretary

Shri B. Reji, Joint Secretary

Shri R. Venugopal , Deputy Secretary

Smt. Shamy J., Under Secretary.

## INTRODUCTION

I, the Chairman, Committee on Public Accounts, having been authorised by the Committee to present this Report, on their behalf present the Third Report on paragraphs relating to Electronics and Information Technology Department contained in the 6<sup>th</sup> Report of the Comptroller and Auditor General of India for the year ended 31<sup>st</sup> March, 2014.

The 6<sup>th</sup> Report of the Comptroller and Auditor General of India for the year ended 31<sup>st</sup> March, 2014 was laid on the Table of the House on 8<sup>th</sup> July, 2014.

The Committee considered and finalised this Report at the meeting held on 9<sup>th</sup> February, 2022.

The Committee place on records their appreciation of the assistance rendered to them by the Accountant General in the examination of the Audit Report.

Thiruvananthapuram,  
16<sup>th</sup> March, 2022.

SUNNY JOSEPH,  
*Chairman*  
*Committee on Public Accounts.*

## REPORT

### ELECTRONICS AND INFORMATION TECHNOLOGY DEPARTMENT

[Audit paragraph 6.1 - 6.5.1 contained in the Report on Land Management by the Government of Kerala with special focus on land for Aranmula Airport and Smart City Kochi (Report No. 6 of the year 2014)]

#### 6.1 Introduction

Information Technology/Information Technology Enabled Services (IT/ITeS) has become one of the most significant growth catalysts for the Indian economy over the years. During this booming phase, Government of Kerala (GoK) established two successful IT parks-Technopark, Thiruvananthapuram and Infopark, Kochi (Infopark).

In January 2006, GoK formed a joint venture company with the status of a Special Purpose Vehicle (SPV) termed Smart City (Kochi) Infrastructure Pvt.Ltd., with TECOM Investments FZ LLC, Dubai (Tecom) for setting up a knowledge based IT/ITeS township in Kochi. Tecom is a subsidiary of Dubai Holding, an investment company owned by the Government of Dubai. Tecom develops infrastructure for Internet and Communications Technology (ICT) companies through its subsidiary Dubai Internet City (DIC).

GoK entered (September 2005) into a Memorandum of Understanding (MoU) with DIC for above township in Kochi which is subsequently followed up with a Framework Agreement (FWA). The FWA was executed (May 2007) with GoK, Infoparks Kerala, Tecom Investment FZ-LLC and SPV to implement the project. The scope of the project includes construction of built-up area of 6.22 million sq. ft. IT/ITeS office space, 0.55 million sq. ft. commercial area, 2.11 million sq. ft. residential area and other spaces as approved at an estimated investment of ₹1,700 crore.

This project was to take off within a period of 10 years in 8.8 million sq.ft<sup>1</sup> built up space and was expected to generate 90000 jobs by providing IT infrastructure to IT/ITeS companies. Keeping the objective in view, GoK leased out (in 2007 and 2008) 246 acres of land to SPV for 99 years under FWA in return for a one time lease premium of ₹104 crore.

---

1 This does not include other spaces.

Since transfer of a large extent of land was involved in the project for development of infrastructure, a Performance Audit on the project was conducted for inclusion in this Report.

### **6.1.1. Capital structure and share holding pattern of SPV**

The initial authorised share capital of SPV was ₹680 crore with an initial paid up capital of ₹120 crore comprising of equity shares of ₹10 each. The shares are subscribed by the parties in the ratio of 84 per cent by Tecom through its permitted affiliates and 16 per cent by GoK. The Board of Directors (BoD) is to make capital calls for funding the cost of the project as may be necessary from time to time.

The SPV had called up 7.5 crore shares to enhance share capital by ₹75 crore (in 2011). The present total paid up capital of SPV was ₹195 crore.

### **6.1.2 Agreements governing Smart City project**

The rights and obligations of the partners within the joint venture are governed by mutually agreed terms in a formal agreement. The agreements that governed the relationship were Memorandum of Understanding (MoU), the FWA and lease deeds.

- Memorandum of Understanding -The MoU signed on 9<sup>th</sup> September, 2005, was only an understanding between the parties, which was to be replaced by a legally valid the FWA within 90 days from such date, unless agreed otherwise by both the parties in writing. Though the validity of MoU expired on 9<sup>th</sup> December, 2005 it was not extended further.
- Frame Work Agreement - Using the MoU as a basis, both the partners worked out the modalities for implementing the project and specified the mutual rights and obligations in the FWA. A formal legally binding document was signed on 13<sup>th</sup> May, 2007.

The FWA was the most important document that governed the formation and operation of the project and the future relationship between the partners.

## 6.2 Audit objectives

The objectives of the performance audit were to assess and evaluate whether the:

- project was conceived in a transparent manner;
- selection of partners of the project was in a transparent manner;
- objectives of the project could be achieved within the specified time frame;
- acquisition/transfer of 246 acres of land for the project was transparent ensures the interest of the State and the period of lease was justified.

## 6.3 Audit criteria

Audit criteria includes:

- Memorandum of Understanding (MoU).
- Frame Work Agreement (FWA).
- Lease deeds.
- Orders issued by various departments of GoK/Goverment of India (GoI) with reference to Smart City Project and other Special Economic Zones(SEZ)<sup>2</sup>.
- Articles of Association and Memorandum of Association of SPV.
- Board Minutes and Annual Accounts of SPV.
- SEZ Act 2005, SEZ Rules 2006 and Minutes of Board of Approval for SEZ (GoI) in India.

## 6.4 Audit scope and methodology

A Performance Audit was conducted between January 2013 and September 2013 covering the period from the formation of the project till September 2013. An entry meeting was conducted on 17<sup>th</sup> April, 2013 with the Principal Secretary, Information Technology Department (GoK) wherein the scope of audit, objectives

---

2. SEZ is an area notified by Gol under SEZ Act, 2005. These areas possess special economic regulations that are different from other areas and companies functioning there will get tax incentives.

and criteria adopted for audit were discussed. Records regarding the initial discussions for the Smart City project, the MoU (2005), the FWA (2007), lease deeds, orders issued by various departments of GoK/Gol with reference to Smart City Project, financial statements of SPV for five years from 2007 to 2011, adherence of SEZ Act, 2005 for the project were scrutinised. The audit findings and conclusions were discussed at an exit meeting held with the Principal Secretary (IT) on 13<sup>th</sup> January, 2014 and the remarks of the Government side have been suitably incorporated.

Audit findings were drawn after scrutiny of the available data by issuing audit enquiries and obtaining replies thereon received from the IT department (GoK) and entities<sup>3</sup> related to the project. Audit relied upon information collected from Government controlled other IT parks like Technopark and Infopark with regard to employment potential and space requirement.

## **6.5 Audit findings**

The major findings observed during audit were as follows:

### **6.5.1 Project conceptualisation**

GoK encouraged and attracted the IT industry through its two successful IT parks and helped the State to emerge as one of the fastest growing IT sectors in India.

Technopark, Thiruvananthapuram established in 1994, with a project area of about 180 acres is the third largest IT park in India, provides direct employment to 42500 employees. Infopark, Kochi established in 2004 has employment strength of 18500 and is still pursuing/undertaking several other projects to boost the IT industry and also the employment opportunity in Kerala. Infopark has campuses at Cherthala and Koratty also. Infopark has constructed a built-up area of 1.2 million sq. ft. for IT/ITeS companies across its three campuses. Out of this 2.2 lakh sq. ft. is yet to be occupied in Infopark, Cherthala.

---

3. Infopark, Kerala Industrial Infrastructure Development Corporation (KINFRA), KINFRA Export Promotion Industrial Parks Ltd.(KEPIP) and other related institutions such as Offices of Registrar of Companies, Development Commissioner for SEZ (Kochi), Kerala State Electricity Board (KSEB) and Kerala State Electricity Regulatory Commission (KSERC).

In this scenario, justification and necessity of taking up another IT city with a new SPV within immediate vicinity of Infopark, Kochi and using the services of Infopark to acquire the land for the new venture is not appreciated and no records articulating the justification was provided to Audit. No feasibility study has been conducted for the project. Further, justification for taking up a meagre 16 per cent equity capital in the SPV by the GoK was also not on record.

*[Note furnished by the Government on the above audit paragraph is included as Appendix II ]*

### **Excerpts from the discussion of the Committee with department officials**

1. With respect to the audit objection on project conceptualisation, the Committee wanted to know whether feasibility study was conducted for Smart City, Kochi. The Additional Secretary, Electronics and Information Technology Department informed the Committee that the construction work of Infopark was started during the period 2004-05 when private sector investment was minimal. Government decided to continue with the Smart City Project with the aim of job generation, seeing an increase in investments and developments in other States. DIC (Dubai Internet City) an international firm and international developer, came forward and submitted the proposal on December, 2004. A High Level Committee under the chairmanship of Chief Secretary with Secretaries of Finance and Industries departments etc as members, examined the proposal in June and September, 2005 Government of Kerala accepted in principle the MoU with Dubai Internet City.

2. He further added that before 2000 itself, Kochi became a development hub. Software technology parks were being started in many parts of India. Chennai, Hyderabad, Bangalore were speedily coming up establishing technology parks. At that stage when Government was thinking of establishing a similar technology project, Dubai Internet City conveyed its interest and submitted a proposal. Government welcomed DIC and its project so as not to loose the race with big cities in technology field. Delay and disinvestment in the project would have made the State back out from the technology boom and industry associated with it, which in turn would have heavily affected the employment opportunities and economic welfare. At that time Government had no option or another proposal

to look into. Moreover, DIC was an internationally reputed builder too. As per framework agreement of Smart City Project about 1700 Cr was to be invested for the construction of 8.8 million sq. ft. area which was a huge liability to the Government. As a result of the Dot-com bubble burst jobs were lost in the IT sector and financial crisis affected the people. There was delay in the construction work due to the global economic downturn during 2007- 2008. However up to 4<sup>th</sup> January 2001, an investment of about 2000 Cr. had been made in connection with Smart City Project. 8 lakh sq. ft. construction was completed providing direct employment to about 4000 people. The undergoing construction of 5.8 million sq. ft. expected to be completed in 2023 creating 50000 job opportunities.

3. An officer from the Accountant General commented that none of the procedures like feasibility study, detailed project report, its approval finalising the documentation and inviting bid that was usually followed for any establishment or any project were not done in this case. And justification for taking up a meagre 16% equity capital in the SPV by GoK was also not answered.

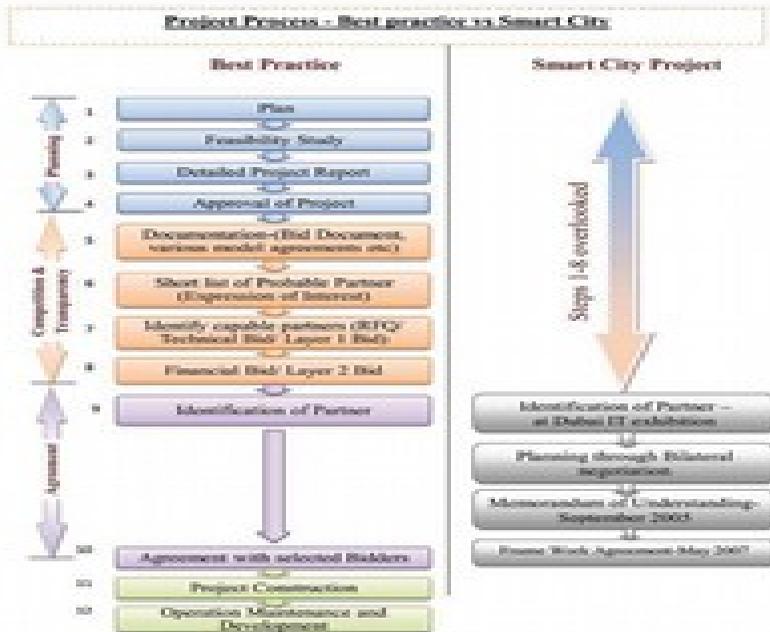
### **Conclusions/Recommendations**

4. No Comments.

[Audit paragraph 6.5.2 contained in the Report on Land Management by the Government of Kerala with special focus on land for Aranmula Airport and Smart City Kochi (Report No. 6 of the year 2014)]

#### **6.5.2 Non-transparency in selection of partner**

GoK identified the partner, in an exhibition at Dubai. In the selection process, all established practices were overlooked as explained below. Normally in mega projects, the partner is identified after a series of steps to ensure proper planning, transparency and competition. However GoK initiated the Smart City-Kochi Project without inviting any expression of interest/proposals of other players in the field. It held direct negotiation with Dubai Internet City (DIC) at an exhibition which was visited by a team of officials and awarded the "Smart City-Kochi" project to "Tecom Investment" without conducting any feasibility study or other evaluations as indicated in the diagram below:



GoK tried to justify the action stating that DIC was selected as they are the largest Information and Communication Technology (ICT) business park in the Middle East owned by Government of Dubai and more than 850 companies operate out of it. As part of their programme of “Going Global” DIC had plans to set up an IT Park in South India in association with premium IT companies. GoK had accepted the proposal of DIC after having discussion at various levels and evaluating the proposals in its totality. However, the files relating to the credentials of DIC were not made available for scrutiny.

GoK stated that Tecom is a subsidiary of Dubai Holding - a Dubai Government undertaking. However in absence of the share holding pattern, audit was not able to establish the real identity of the owners/promoters of Tecom.

Parties were identified without following the established procedures and practices. After Tecom was identified, GoK had a series of negotiations to chalk

out the modalities for implementing the project which led to MoU and the FWA. The IT department of GoK however did not produce copies of minutes of discussion/negotiations with DIC to Audit.

*[Note furnished by the Government on the above audit paragraph is included as Appendix II ]*

### **Excerpts from the discussion of the Committee with department officials**

5.To the query in the audit para, the Additional Secretary, E & IT Department replied that DIC (Dubai internet city) had submitted the proposal to the Government after examining the financial feasibility and Government had also examined the financial worth of the proposals. Therefore it cannot be criticized that Government is at fault for not calling the expression of interest. Government had examined the legal status of Tecom Investment, which was a strategic holding of DIC.

6. An officer from AG pointed out that parties for implementation of project were identified without following the established procedures. Though Government of Kerala had a series of negotiations with Tecom for the implementation of the project, IT department of Government of Kerala however did not produce copies of minutes of the discussions/negotiations with DIC to the Audit which hindered a transparent audit.

7. The Additional Secretary, E & IT Department replied that he was informed that the High Level Committee had examined the proposal and its financial aspect, but it need to be checked whether it was included in the minutes. Over 2000 Crore has been already invested in the project, whose expected investment was only 1700 Crore as per FWA. Therefore it seems that no justification is needed regarding financial feasibility.

8. Pointing out the AG's contention that necessary supporting documents were not submitted for audit scrutiny, the Committee take strong exception to the irresponsible attitude of the officials of the department.

### **Conclusions/Recommendations**

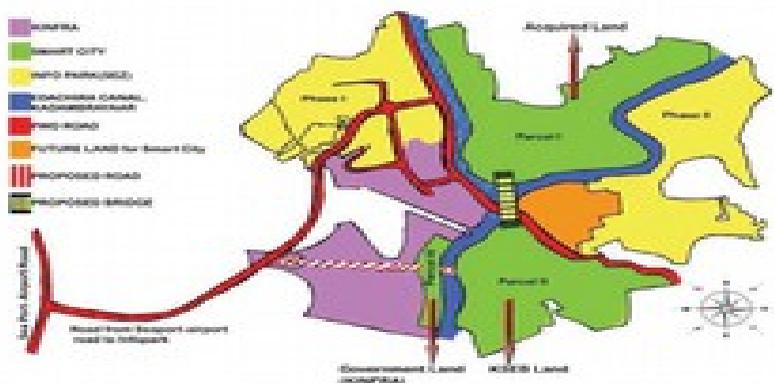
9. No Comments.

[Audit paragraph 6.6, 6.6.1, 6.6.3 contained in the Report on Land Management by the Government of Kerala with special focus on land for Aramula Airport and Smart City Kochi (Report No. 6 of the year 2014)]

## 6.6 Land issues

GoK leased out 246 acres of land<sup>4</sup> in three non-contiguous parcels in 2007 and 2008 for a one time lease premium of ₹104 crore and annual rent of ₹ one per acre. SPV paid the amount on 15<sup>th</sup> November, 2007 and 29<sup>th</sup> July, 2008 and took possession of the land. Out of this, Parcel I measuring 131 acres received SEZ status in March 2011. In addition an extent of 167 acres was identified as future land to be given when required (details in Annexure XII).

### Proposed site of Smart City project



Land being a highly priced finite resource in Kerala, GoK should have ensured that land acquired and handed over to the private partner was not more than what was essential for the project. However GoK not only handed over the land that was more than required but also at a cost below the market value/acquisition cost. Besides, the SPV/ Tecom enjoy the right to convert

4 Parcel I – Acquired from private parties  
Parcel II – from KSEB  
Parcel III – from KINFRAL

12 percent of the total leased land as free hold at any point of time which gives scope for the manipulation of the objectives of the project. These points are described below:

### 6.6.1 Short realisation of land value

Information Technology department, GoK had informed (July 2006) Dubai Internet City (DIC) that Government was willing to acquire land and hand over the same to DIC provided DIC pays for the land at market prices or at prices normally realised from IT firms.

The lessor (GoK) received ₹104 crore as one time lease premium being the full consideration for 346 acres of land. The one time lease premium charged by GoK works out to ₹42.27<sup>5</sup> lakh per acre.

Infopark, Kerala which develops IT parks in Kerala also lease out land to IT firms for establishment of IT parks at Kochi. The rate of lease in the adjacent areas of Smart city for 90 years was ₹69 lakh per acre during 2007. On one occasion, Infopark Kerala opted for bid system and got ₹5.50 crore per acre (2008) for five acres of land leased to a client (M/s. Brigade Enterprise) for 90 years. Considering the rate of ₹69 lakh per acre by Infopark as the market rate in 2007, the rate fixed by GoK for the SPV was only 61 per cent ie., ₹42.27 lakh per acre. In view of the lease premium received for adjacent land of Infopark, the total amount short realised on 246 acres works out to ₹65.75 crore.

It was also noticed that land belonging to KINFRA which was adjacent to SPV for IT/ITeS was transferred at the rate of ₹1.50 lakh for one Cent at Kakkanad, Kochi. In reply the department stated that high cost lands are not viable that Government has to support large infrastructure development to create jobs and cost of operation in Kochi compared to other cities like Bangalore was high and rent receivable was low. The remarks of the department are not tenable as the land transferred to Smart City was at the rate of ₹42,000 for a Cent as against ₹1.50 lakh for a Cent leased by KINFRA and much less than the lease premium received by Infopark. Further remarks are awaited.

---

5 ₹104 crore/246 acre

### 6.6.3 Non -assessment of land required

In projects involving transfer of large extent of land, Government should have made an assessment justifying the allotment of land. GoK did not conduct any study to assess the requirement of land to achieve the stated objective as discussed below.

SPV envisaged construction of 8.8 million sq.ft. of built-up space so as to create 90,000 jobs. The construction was to be based on a master plan approved by the BoD of the SPV. Even after a lapse of seven years of execution of the FWA, the department did not prepare the master plan (January 2014). In the absence of a master plan, audit was not able to ascertain the requirement of the built up space and the necessity of 246 acres of land for the project.

Hence, Audit tried to assess the land requirement for 8.8 million sq.ft, built up space on the basis of Kerala SEZ policy, which stipulates 70 per cent of SEZ land to be utilised as processing area and balance 30 per cent as non-processing area. Adopting Floor Area Ratio (FAR) of 1.5 to 2.5 as stipulated by Kerala Municipal Building Rules, 60,984 sq. ft of built up space could be constructed in one acre as shown below:

One acre = 43,560 Sq. ft	
Processing area as per Kerala SEZ Policy	30,492 Sq.ft. (70 per cent of total area) ie. 70% of 43,560 sq.ft.
Built up space available for an FAR of 2 for one acre of land	60,984 sq. ft. (30,492x2)
i.e. in one acre 60,984 sq.ft. built up space can be constructed.	
Therefore for constructing 88 lakh sq.ft. (FAR 2), only 144 acres of land was necessary.	

IT department failed to explain the basis of estimation as there were no

records available with the department on which the estimate of required land was arrived at. In reply, department stated (January 2014) that land provided were in line with development plans and taking Municipal Building Rules and Floor Area Ratio (FAR) as the basis for IT Parks of international standards which require Floor Area Ratio of not more than 1.5 to 2. The reply is not tenable as it would violate the criteria of 70:30 ratio for land utilisation as per Kerala SEZ Policy. Further even after complying with the FAR of 2 as mentioned in the reply, the allotment of 88.06 acres of land in Parcel II and 13.94 acres in Parcel III was not necessary.

Further, there was no connectivity among the parcels of land allotted to SPV. As the SEZ Act stipulates contiguity as a pre-condition for granting SEZ status, the second and third parcel of land were not eligible for SEZ status. The SPV received SEZ status only for Parcel-I (131 acres)

*[Note furnished by the Government on the above audit paragraph is included as Appendix II ]*

**Excerpts from the discussion of the Committee with department officials.**

10. When enquired about the audit objections related to Land issues, the witness Additional Secretary, E & IT department replied that 60-70 cents out of 246 acres remains to be transferred and 62 cents of land were found less when resurvey was conducted in 2018. The project was envisioned as a self contained city which will be a walk-to-work township, containing facilities like the internal roads, trenches and drains, substations, water treatment plant, water storage tank as well as educational and medical facilities.

11. Committee pointed out the disparity in the land value fixed in Infopark and that in adjoining land belonging to KINFRA. The Committee then enquired under which parameter land value was fixed for the project and why additional land to the tune of 88.06 acres and 13.94 acres were unnecessarily provided in Parcel II and Parcel III respectively and why Parcel II and Parcel III were not given SEZ status. The Deputy Accountant General, pointed out that instead of providing 144 acres of land needed for the construction of 8.8 million sq. ft. built up space, 246 acres of land was transferred. She further pointed out that rate of lease

in adjacent areas of Smart City was ₹69 lakh/acre whereas lease charged for Infopark was just ₹42.27 lakh/acre.

12. The witness, Additional Secretary, E & IT department informed that 246 acres of land which was given to Smart City Project was totally raw and underdeveloped area lacking basic facilities like power, water, communication facilities etc. Therefore, it cannot be compared to the land which KINFRA took for lease. Based on Government recommendation, approval of SEZ status is given by Development Commissioner of Kochi. SEZ involves export oriented businesses. Since domestic domain has very much developed, an IT Service provider company with only export facility will be neglected. Therefore SEZ status cannot be taken as a criteria for evaluation.

13. The question of whether the extent of land handed over for SCK was indeed essential for the project is to be considered with the perspective that Smart City was structured as a self contained city which will be a walk to work township. In walk-to-work concept 33% of land is to be maintained as green area for getting approval from State Environmental Impact Assessment Authority (SEIAA). Moreover, the presence of Kadambra River in the project area restricts construction all along within its 10 meter boundary. SCK included 3 water bodies coming to 4 acres, which is to be maintained and protected. Implementation of walk-to-work township concept should provide basic infrastructure facility for community living. Facilities includes internal roads, trenches & drains, substations, water treatment plant, storage tanks, rain water harvesting structure and all other support facilities for residential living. Thus technical assessment of land required based on floor area ratio can be misleading and will not fulfil the concept of walk to work township.

14. An officer from AG, pointed out that detailed scrutiny reveals lack of transparency in procedures like assessment of land requirement, built up space necessity, etc. In this case, the absence of master plan itself was pointed out in Audit.

15. The Additional Secretary, E & IT informed that Master Plan was

submitted to the Board of Smart City Project in 2013 only and it was approved in 2013 itself and work started in September 2013. Master Plan quotes 90,000 job opportunities and 8.8 million sq. feet built up space in 246 acres. In Technopark, 329 acre area provided 62000 direct job opportunities and in Infopark 226 acre area provided 47,000 direct job opportunities while in Smart City Project Government intends to provide 90,000-95,000 job opportunities.

16. The Committee pointed out that though MoU signed on 9<sup>th</sup> September, 2005 was to be replaced by a legally valid Frame work Agreement (FWA) within 90 days, FWA was signed after almost 2 years, on 13<sup>th</sup> May, 2007. Even at that stage too Master Plan was not evolved. Master Plan was prepared and finalized in 2013 only. The Committee asked for an explanation for the delay and implementing a project without a Master Plan. The Additional Secretary, E & IT department replied that Frame work agreement signed on 13<sup>th</sup> May 2007 included details of the project. Master Plan was submitted to Board of Directors in 2013 and field work started in September 2013. He further added that recession during 2008 had affected the financial undertakings and investments in many countries including Dubai where DIC is based. And this may be the reason for the delay. While agreeing with the Additional Secretary, E & IT department statement on recession in 2008, the Committee criticized the misdeed of starting a project without master plan. The witness, Additional Secretary, E & IT department argued that 8.8 million sq. feet built up space and 90,000 job opportunities which was the criteria for the project were mentioned in FWA of 2007 itself and the same was incorporated in Master Plan.

17. An officer from Accountant General, enquired why the presence of water bodies was not noticed during project conceptualisation since connectivity between two non-contiguous parcels of land was much needed for achieving walk-to work concept.

18. The witness, Additional Secretary, Electronics and Information Technology department explained that the proposal of connecting bridges in between non-contiguous land put forth during the first phase was abandoned due to presence of private land holdings and because of road connectivity available. Also a case was filed in the Supreme Court against connectivity bridge proposal

and the judgment was in favour of the petitioner. The witness further explained that FWA had to be amended two times since the conditions and rules changed after passing of The Kerala Conservation of Paddy land and wetland Act in 2008. It should also be noted that 246 acres of land was not received as single stretch of land. Moreover Kadambrayar and a small pond in the project area has to be protected, 33% of area has to be maintained as green land as per SEIAA, flow of water through drainage channels needs to be taken care of as per the Kerala Conservation of Paddy land and Wetland, 2008. Therefore area of land, which can be practically used for the project is low.

### **Conclusions/Recommendations**

19. No Comments.

[Audit paragraph 6.6.2 contained in the Report on Land Management by the Government of Kerala with special focus on land for Aranmula Airport and Smart City Kochi (Report No. 6 of the year 2014)]

#### **6.6.2 Additional liability for KSEB land in Parcel II**

KSEB possessed 194.87 acres of land for Brahmapuram Diesel Power Project (BDPP) out of which 100.65 acres (Parcel II) of land was transferred to R&DM department in July 2007 for the purpose of handing over to Smart City project on lease basis subject to the following conditions:

- Value of the land will be determined and paid by Government to KSEB later; and
- Additional compensation ordered to be paid in land acquisition appeal cases in respect of lease land shall be paid by GoK through R&DM department.

R&DM department fixed the land value to be given to KSEB for the transfer of land as ₹ 7.57 crore (April 2008). The compensation was not accepted by KSEB for the reason that the transferee was a purely commercial entity and the compensation was less than the market value. The matter continues in dispute. As against a demand of ₹43 crore by Power department/KSEB, Government had

fixed the compensation at ₹7.57 crore creating a probable additional liability of ₹35.43 crore.

*[Note furnished by the Government on the above audit paragraph is included as Appendix II]*

**Excerpts from the discussion of the Committee with department officials**

20. The Committee sought explanation to the audit objection of additional liability of ₹ 35.43 Cr. from KSEB. The witness, Chairman & MD, KSEB detailed that over 100 acres out of 194 acres of land which KSEB had purchased with its fund for Brahmapuram Diesel Power Project (BDPP) from 478 private parties was handed over to Revenue Department for Smart City Project subject to condition to pay KSEB compensation amount fixed at that days market rate. But when Government calculated the land value, the price dropped to ₹ 7.57 Crore, which was much lower to market value against ₹ 43 crore demanded by KSEB. The explanation given by the department is that the rate was calculated considering the Smart City Project as a Government initiative. However according to KSEB Accounts audit, the price of the land, development charge of land and legal charge add to an amount of ₹47 Crore, hence KSEB couldn't agree with price fixed by Government, owing to high amount of loss.

21. The Committee demanded an explanation from IT Department regarding the under valuation of land. The Additional Secretary, Electronics and Information Technology department informed that ₹ 7.57 Crore land value was calculated by the then District Collector, Ernakulam as per Land Acquisition Rules, 1990 in 2007-08. The rate was fixed after analysing top 5 prices at that time by District Collector and was then recommended by IT department. All procedures were carried out through Revenue department as per rules and no inappropriate amendments were made in between.

22. The witness, MD, KSEB replied that though there has been clear undervaluation in this case, keeping in mind that the said project is a Government project and KSEB itself comes under Government, KSEB is willing to settle the issue as per Cabinet decision that paying an amount of ₹7.57 Crore and its

interest till date. And requested the Committee to drop the audit objection in this context. He also said that if KSEB received a higher amount than the fixed rate of ₹ 7.57 Crore, that will positively reflect in the tariff in the electricity bills of the people. Therefore the Committee decided to recommend to settle the issue by paying the compensation amount of ₹ 7.57 Crore and its interest till date to KSEB.

### **Conclusions/Recommendations**

**23. The Committee observes that the KSEB is willing to settle the dispute regarding the amount of compensation for the transfer of its land to parcel II land with an amount of ₹ 7.57 Crore, as approved by the cabinet, with interest. The Committee recommends the E&IT department to settle the dispute by paying the compensation, amounting to ₹ 7.57 Crore, with interest till date to the KSEB, if it is not settled so far.**

[Audit paragraph 6.6.4 contained in the Report on Land Management by the Government of Kerala with special focus on land for Aranmula Airport and Smart City Kochi (Report No. 6 of the year 2014)]

#### **6.6.4 Grant of free hold rights**

As per Para 5.4 of the FWA, upon completion of master plan, SPV will identify plots to be converted to freehold<sup>6</sup> and such plots will be converted to free hold by GoK forthwith without any further consideration or charges. Cumulative area of the plots converted to freehold will not exceed 12 per cent of the total land area at any point of time.

As per SEZ Rules the land inside SEZ is not alienable<sup>7</sup>, while that outside is alienable. The SPV has received SEZ status for Parcel-I (131 acres). Thus, it enjoys absolute free hold right of 29.52 acres on the remaining 115 acres of land without SEZ status. Further due to the clause “at any point of time”, SPV will have a claim for 12 per cent of future land also. Thus this clause gives SPV undue advantage in terms of retention of land. SPV also reserves the right to identify the plot to be converted as free hold as per the FWA.

---

6 Freehold refers to 'absolute right' over the title of property which gives the title holder all rights to alienate the property.

7 Alienation includes sale, gift, bequest under a will, mortgage, hypothecation or lease.

Thus GoK favoured SPV, where Tecom is the major share holder (84 per cent), to obtain 12 per cent free hold right of the land at any point of time. The department stated that in order to develop a Smart City as an IT township, limited free hold rights are to be enjoyed by the developer. Since the free hold is not saleable and not alienable within SEZ, no undue benefit would be gained by the developer. The reply is not tenable as 115 acres is outside the SEZ and hence, it is alienable.

*[Note furnished by the Government on the above audit paragraph is included as Appendix II]*

**Excerpts from the discussion of the Committee with department officials.**

24. The Committee sought the reason for including granting of freehold rights for SPV in FWA which would give undue benefit to SPV. The witness, Additional Secretary, Electronics and Information Technology department informed that Government had made absolutely clear that the condition 90,000 jobs and 8.8 million sq. ft. built up space is to be fulfilled. The remedial measures to be taken if SPV fails to accomplish the condition is stated in clause 7.7.2 of FWA. He further explained that actually freehold right of 12% is to be considered by the Government only when the SPV is not fulfilling these two criteria mentioned. Right now this clause is not activated with Government and if there is a breach of condition, then the Government may fix the free hold right through Cabinet decision. The lease period is 99 years.

25. The Committee understands that only after fulfilling the conditions in the lease agreement 12% freehold rights will be provided subject to the decision of Cabinet. When an officer from Accountant General, asked the necessity of the inclusion of freehold right clause in the agreement, the witness Additional Secretary, Electronics and Information Technology department informed that Government had included the clause with the view that it can be withdrawn after lease period. The Committee enquired whether any clause was included in FWA to protect the property under freehold right from being sold. The Deputy Accountant General pointed out that the reply received for the audit objection is that the Clause 2(XIII) of the 2nd lease deed restricts further alienation or sale of freehold land that may be allotted to SPV. But such a clause was not seen in lease deal when examined.

26. An officer from Accountant General further asked whether this clause will be applicable if Parcel-I was de notified and changed to non SEZ. The witness, Additional Secretary, Electronics and Information Technology department replied that this question will arise only when the criteria of built up space of 8.8 million sq. ft. and 90,000 jobs are fulfilled. At that time Government will take it into consideration.

27. Committee on analysing the Government reply as well as AG's remarks, remarked that Committee was not fully satisfied with Government explanation about conditions applicable for free hold right and the reason for giving such a right and doubted whether it gave undue benefit to SPV. Committee remarked that even if the free hold right restricts selling of property, no specific clause is seen in the Frame Work Agreement which restricts sub leasing of property.

### **Conclusions/Recommendations**

28. No recommendation.

[Audit paragraph 6.7 contained in the Report on Land Management by the Government of Kerala with special focus on land for Aranmula Airport and Smart City Kochi (Report No. 6 of the year 2014)]

### **6.7 Development Issues Delay by SPV in implementation of development plan**

Even though the GoK had provided 246 acres of land for the project in terms of the FWA in 2007, the initiative by SPV was not proactive. A few instances are as follows.

- Delay in Registration : The lease deeds for the 246 acres of land were originally executed between GoK and Smart City Kochi in two parts on 15 November 2007 (131.41 acres) and 29 July 2008 (114.59 acres). But the SPV delayed registration of the lease deeds on the pretext of seeking exemption from stamp duty and registration fees (₹ 9.36 crore at the rate of seven per cent stamp duty and two per cent registration fee). SPV obtained stamp duty and registration fees exemption for the lease deeds vide Government Orders (GO) dated 14 October 2008 and 8 February 2011 and thereafter registered the deeds on 23 February 2011 only.

In response, the department stated that registration of original lease deeds were not delayed for non-receipt of stamp duty exemptions but for other reasons. The reasons were however not explained by the department. The fact remains that these document were registered only in February 2011 (delay of 40 months and 32 months respectively).

- Department of Commerce (DoC), GoI issued formal approval during April 2008 to Smart City Kochi for setting up of a sector specific SEZ for IT/ITeS in Cochin and notified (1 March 2011) an area of 53.1809 ha. (131 acres) of land as SEZ. However seven years after signing of the FWA and six years after getting formal SEZ approval for 131 acres of land, no progress was made either in the construction of building or in employment generation except fencing the boundary, construction of a pavilion and appointment of consultants. SPV has not even appointed full time CEO/company secretary/office staff till 2010.
- GoK expressed (3 September 2010) its discontent to SPV for the delays in achieving Closing Date, registering the lease deeds in time and SPV's interpretation of free hold land and cautioned the SPV to expedite the implementation of the project. The reference made by Government was not acted upon by SPV even after three years and this confirms the indifferent approach of SPV towards the objective of the project.
- The request of SPV to acquire about 19 Cents of patta land, for rehabilitation of four families living in the project area, at SPV's expenses was agreed to by GoK vide GO dated 29 November 2008. The land had been identified by Infopark and the land acquisition was ordered under Fast Track Project. It was decided to fix the price of land at ₹ 1.09 crore at the rate of ₹ 4,65,854 per cent. Delay by the SPV in making payment for acquisition is delaying rehabilitation of the four families and initiation of development activities in Parcel II.

*[Note furnished by the Government on the above audit paragraph is included as Appendix II ]*

**Excerpts from the discussion of the Committee with department officials.**

29. The Committee enquired whether there was any protection clause in FWA for the delay in the implementation of development plan. The witness, Additional Secretary to the E & IT Department informed the Committee that FWA does not contain any protection clause. He further clarified that though FWA was signed in May 2007, stamp duty and registration fees exemption for the lease deeds were obtained by SPV vide G.O. dated October 2008 and February 2011 and the lease deed could be registered in February 2011 only which shows a delay of 40 months from May 2007 to February 2011. He reiterated that there was no penalty clause to take action against such procedural delays on the part of SPV. The Committee directed the department to furnish present status of the rehabilitation of four families living in the project area, which was delayed due to SPV in not making payment for acquisition of 19 cents of patta land for ₹1.09 crore.

**Conclusions/Recommendations**

**30. The Committee directs the department to furnish the progress of rehabilitation of the four families who have been living in the project area, which was hampered due to the delay in making payment by the SPV for acquisition of 19 cents of land identified under fast track project for ₹1.09 crore.**

[Audit paragraph 6.8 contained in the Report on Land Management by the Government of Kerala with special focus on land for Aranmula Airport and Smart City Kochi (Report No. 6 of the year 2014)]

**6.8 Impact of 'Closing date' and 'Minimum infrastructure' with penalties for default (Article 1.1 and 7.1) of the FWA**

A most crucial milestone in the implementation of the project was fulfilment of conditions set forth in the FWA regarding “Closing date”.

As per the FWA “Closing date” means the date following the Developer Status<sup>8</sup> Attainment Date on which all of the following events have occurred. The SPV obtained developer status on 21 April 2008.

Table showing the present position of Developer Status attainment date			
Sl. No.	Requirements	Responsibility	Present status
(1)	(2)	(3)	(4)
1	Completion of Minimum Infrastructure like one MLD water, 10 Mega Watt Power and 24x7 road access through PWD road (Article 1.1).	GoK	The SPV failed to identify the location.
2	Receipt of the SEZ Notification in favour of SPV (Article 4.1).	GoK to assist	GoI-Department of Commerce has provided SEZ status on 1 March 2011 for 131.41 acres only
3	Receipt of statutory approvals for construction (Article 4.1)	GoK to assist	Obtained on 21 April 2008 vide letter No. F.2/74 / 2006 SEZ dated 21 April 2008 -Para 3 (xviii) for 131.41 acres only.
4	Execution of the lease deed (Article 2.6)	GoK	Executed on 15 November 2007 and 29 July 2008 which was cancelled on 23 February 2011 and re-executed and registered on 23 February 2011.

8. Developer Status denotes a letter of approval from GoI to a person or State Government to allocate space or built up area or provide infrastructure service to approved units under an agreement as per Section 3(10) of the SEZ Act, 2005.

5	Completion of the acquisition and transfer of the land in favour of SPV (Article 2.6)	GoK	Original registrations 15-11-2007 - 234.54 acres 29-7-2008 - <u>11.46 acres</u> 246.00 acres <u>On registration</u> 23-2-2011-Deed I - 131.41 acres Deed II - <u>114.51 acres</u> 245.92 acres
6	Transfer of 16 per cent share in SPV in favour of GoK (Article 3.3.1)	GoK	GoK had invested an amount of ₹ 31.20 crore in SPV towards share capital.

Out of the above mentioned six conditions, only three (4,5 and 6) have been fully achieved so far (September 2013). Audit observed that the obligation of SPV as per the FWA begins only on the compliance of conditions by GoK, which however could not be attained without reciprocal commitment on the part of SPV. The conditions agreed upon in the FWA were inadequate to bind the SPV for performing their obligations. This flaw in the agreement enabled SPV to unjustifiably delay the implementation of the project.

Due to non-incorporation of penalty clause for the default by Tecom in achieving the Closing date in the FWA, GoK was unable to take any legal action against Tecom. Audit has further analysed the various reasons and impact of the delays in the following paragraphs.

*[Note furnished by the Government on the above audit paragraph is included as Appendix II ]*

**Excerpts from the discussion of the Committee with department officials.**

31. The Committee enquired why no penalty clause was incorporated in the agreement which prevented taking any legal action against Tecom for the delay in implementation of the project. The witness, Additional Secretary, E & IT

department replied that usually developers does not support inclusion of penalty clause in agreement. He accepted the fact that if penalty clause had included, Government would have received a huge amount as penalty. But the priority of Government and main goal of the project is job creation. Since that goal is being achieved, even though delayed, Government does not insist on penalty clause.

### **Conclusions/Recommendations**

32. No comments.

[Audit paragraph 6.8.1 contained in the Report on Land Management by the Government of Kerala with special focus on land for Aranmula Airport and Smart City Kochi (Report No. 6 of the year 2014)]

#### **6.8.1 Delay in providing minimum infrastructure**

As per the FWA, steps for providing minimum infrastructure by GoK were to be started within 15 days of signing the FWA and were to be completed within six months [Article 7.1.1 (b)]. Since the FWA was signed on 13 May 2007 the work was to be started on 28 May 2007 and should have been completed by 12 November 2007. While the work was to be completed by GoK the requirements were to be intimated by SPV. GoK agreed to this without ensuring counter obligations on the part of SPV/Tecom and without considering the implications of the stipulation.

GoK was to supply 10 MW of power to the SPV. Audit noticed that as SPV had not forwarded its energy requirement plan to KSEB or KEPIP, GoK could not take any step to provide power connection. As per Article 1.1 of the FWA, one MLD water was to be supplied to Smart City from KEPIP. GoK had directed<sup>9</sup> KINFRA to provide one MLD of water from the Water Supply Scheme of the KEPIP to the periphery of the Smart City Project. The work was awarded to KITCO by KEPIP. Since SPV didn't finalise the route for pipeline, the work could not be taken up and KITCO was forced to short close the work after incurring an expenditure of ₹ 6.20 lakh on purchase of pipes.

---

9 GO (Rt)No. 01/2008/ID dated 2 January 2008

Thus, though GoK initiated steps from January 2008 itself to provide the minimum infrastructure; it could not complete it due to lack of co-operation from SPV/Tecom. Due to the deficient agreement conditions GoK alone became responsible for the failure to provide minimum infrastructure and SPV/Tecom was absolved from penal action in spite of the non-co-operation on their part.

*[Note furnished by the Government on the above audit paragraph is included as Appendix II ]*

[Audit paragraph 6.8.2 contained in the Report on Land Management by the Government of Kerala with special focus on land for Aranmula Airport and Smart City Kochi (Report No. 6 of the year 2014)]

### **6.8.2 Continuous liability of GoK under the FWA**

Audit analysis of the FWA also revealed that in addition to completion of “minimum infrastructure” further obligations were imposed on GoK under the FWA. They were:

- GoK has to continue the development of infrastructure commensurate with the requirement of Development Plan in such a manner that the required amount of power and water supply are made available at the periphery of Smart City when the facilities built by SPV are ready to draw on the said utilities (Article 6.2).

- In addition to this, GoK has to complete acquisition of land for the new four lane road connecting the sea-port-airport and complete the road within two years (Article 6.3)

- Assist (Article 6.5) the SPV in:

- ◆ completion of fencing at the site

- ◆ obtaining a permanent source of water supply

- ◆ obtaining relevant approvals and permissions necessary for the construction of the linkage between different parcels of land to make them inter linked

- ◆ obtaining relevant permission to construct and operate a power generation system and

- ◆ obtaining fast track approval for all licenses, permits and registrations required to establish requisite hospitality facilities of international standards within Smart City as per development plan.

- Further, GoK has to ensure supply of adequate power to SPV without disruption and construct, develop and maintain adequate link roads to the airport-seaport road as per NH standards (Article 6.5)

As seen from the above, various provisions in the FWA were imposing responsibility on GoK and the responsibility of SPV/Tecom was specifically limited to development of infrastructure within the notified SEZ area. These clauses were used by the project developers (SPV/Tecom) in their favour by prolonging the implementation of the project by not even providing minimum infrastructure like substation and construction of water tank within the project area.

*[Note furnished by the Government on the above audit paragraph is included as Appendix II ]*

### **Excerpts from the discussion of the Committee with department officials.**

33. Regarding the audit paragraph, the witness, Additional Secretary, E &IT Department submitted before the committee that it is the duty of the Government to provide the basic infrastructure facilities like electricity, water supply, waste management etc, and that it will not be a continuous liability of Government.

### **Conclusions/Recommendations**

34. No comments.

[Audit paragraph 6.8.3 contained in the Report on Land Management by the Government of Kerala with special focus on land for Aranmula Airport and Smart City Kochi (Report No. 6 of the year 2014)]

### **6.8.3 Responsibility of GoK with regard to Parcel II of land**

- Diversion of PWD road presently going through the middle of the land proposed for Smart City project in second parcel of land of 100.65 acres. Even though the decision to divert the PWD road was taken by the Government during

November 2008, the land was identified only during March 2012 i.e., after a delay of around three and half years. But till date (March 2013) no physical transfer of land has taken place.

- Shifting and re-construction of KSEB installations within 100.65 acres. For the re-location/shifting of KSEB installations (sedimentation, tank, pumping station, filter house, four families living in 19 Cents of land), GoK had released ₹ one crore in April 2009 and ₹ 50.50 lakh in April 2013 towards the share of Smart City. In reply to an enquiry regarding delay on shifting of utilities, Office of the Member (D&GE)<sup>10</sup>, KSEB, Thiruvananthapuram had stated (4 July 2013) that the shifting could be started only after getting GO for mutual exchange of land as suggested by District Collector, Ernakulam for which a decision was pending with Power department, GoK. Further the proposed land to be transferred to KSEB for relocating the installation has been identified, but the same has not been swapped with the land of SPV so far (November 2013).

- Demolition and shifting of installation and air monitoring station to outside the project area.

- Establishing contiguity between two parcels of land by way of construction of bridge

In response to the above observation, GoK stated that the closing date had already been achieved by 1 March 2011 the project would be completed by 2021. Though the closing date is stated to be achieved by 1 March 2011, the same had not been achieved as the minimum infrastructure remains to be provided. The remarks of the department are thus not tenable.

*[Note furnished by the Government on the above audit paragraph is included as Appendix II ]*

### **Excerpts from the discussion of the Committee with department officials.**

35. When asked about the status of diversion of PWD road, going through the middle of the land proposed for Smart City Project in the second parcel of land of 100.65 acres, the Additional Secretary replied that construction in the second

---

10 D&GE- Distribution and Generation (Electrical)

parcel land had not been started yet and it was decided to transfer the work to RBDCK since PWD couldn't complete diversion work. He further explained that the decision has not been implemented.

### **Conclusions/Recommendations**

36. No comments.

[Audit paragraph 6.8.4 contained in the Report on Land Management by the Government of Kerala with special focus on land for Aranmula Airport and Smart City Kochi (Report No. 6 of the year 2014)]

#### **6.8.4 Non-adherence to Development Plan**

As per the Development Plan in the FWA, the SPV has to complete the project within a period of 10 years by constructing 8.8 million sq.ft. of built up space so as to generate 90,000 jobs. However, the 10 year period starts only with the "attainment of the Closing date" as defined in the FWA ("Closing date" analysed in detail in para 6.9).

In this connection, Audit observed that-

- The closing date as defined in the FWA was not achieved so far (March 2014).
- Even if the closing date is attained in 2014, the SPV will have a permissible period of 10 more years to complete the project. Thus the project is likely to be completed only after 2025 and GoK cannot enforce SPV to expedite the implementation of the Project.

The physical progress achieved during this period (2007 to 2014) is limited to:

- Construction of a 10,900 sq.ft pavilion (2012) for the office and barbed fencing of the leasehold land.
- Appointment of a Project Manager (Synergy Bangalore) and designer B+H Architects (Toronto) to design the first phase building. Design of the building of about six lakh sq.ft. has been completed.

The progress achieved so far (March 2014) does not correspond with the schedule fixed for completion as per Development Plan. Thus, the project expected to deliver much to IT/ITeS industry remained standstill without any precise time schedule for commencement.

*[Note furnished by the Government on the above audit paragraph is included as Appendix II ]*

**Excerpts from the discussion of the Committee with department officials.**

37. In connection with the audit objection of non adherence to development plan, the Committee enquired whether the “Closing date” in FWA was amended later and whether actual date of completion was finalised. The witness, Additional Secretary, E & IT department replied that there was 6 points included in the FWA regarding closing date of the project of which Completion of minimum infrastructure & Completion of acquisition and transfer of land in favour of SPV are subjective. Government has done everything in the case of providing minimum infrastructure. When survey was conducted in 2018 in accordance with the completion of acquisition and transfer of land, out of 246 acres of land only 60-70 acres were remaining. There is an open disagreement between the SPV and Government regarding the matter and SPV argue that Government has not completed the work specified in FWA. As per the development plan in FWA, the SPV has to complete the project within a period of 10 years by constructing 8.8 million square feet of built up space so as to generate 90,000 jobs. The 10 year period starts only with the “attainment of Closing date”, as defined in FWA. But the closing date is yet to be achieved.

38. The Committee pointed out that the deferment in providing basic facilities led to non completion of work since there is no specific provision in favour of Government of Kerala to argue against the developer for their delay in completion of work as per the development plan. The fixation of closing date is very important in order to force SPV to expedite implementation of project.

39. The Additional Secretary, E & IT department informed the Committee that 5.8 million square feet built up space can be commissioned by 2023. 27% of work of Marad IT park and 45% work of Cyber Green Park were completed in November 2020.

40. The Committee directed the department to furnish a statement with updated status of the construction work as per the development plan of IT Parks including built up space and the employment opportunities created so far.

### **Conclusions/Recommendations**

**41. The Committee directs the Department to furnish a statement with updated status of the construction work in line with the development plan of IT Parks, including built up space and the job opportunities created so far.**

[Audit paragraph 6.9.1 contained in the Report on Land Management by the Government of Kerala with special focus on land for Aranmula Airport and Smart City Kochi (Report No. 6 of the year 2014)]

#### **6.9 Other deficiencies in Frame Work Agreement.**

Other deficiencies noticed during the scrutiny of the FWA are mentioned in succeeding paragraphs-

##### **6.9.1 Deficiencies in legal opinion**

The Law department of GoK approved the draft FWA on 27 February 2006 with comments regarding "events of force majeure" and venue of arbitration only. The vital aspects regarding "Closing date", low one time lease premium, period of lease, 'best efforts' to create 90,000 jobs, the clause in the FWA that the GoK shall not make any efforts that diminishes the value of Smart City, adequate representation of Government in BoD, transfer of 246 acres of land without adequate cost etc. were not considered by Law department even though these aspects were the corner stones in the implementation of the project. The agreement was referred (February 2010) to the Advocate General by GoK to seek his advice on certain clauses in the agreement. It was observed by him that the clauses pertaining to closing date, and 12 per cent free hold rights were deficient and required re-consideration. He also opined that GoK had not taken care to specify the consequences of failure on part of Tecom while Tecom had taken care to incorporate such a clause on failure of GoK. Thus the vetting by the Law department was not comprehensive. It was also noticed by audit that the FWA was modified after vetting by Law department (Ref. Para 6.10.3). The IT department

replied (January 2014) that Government has obtained necessary legal opinion and framed the FWA. The remark was not tenable as specific opinion on Closing Date, implication of 12 per cent free hold rights and 'best efforts' etc. were not obtained from Law department.

*[Note furnished by the Government on the above audit paragraph is included as Appendix II ]*

### **Excerpts from the discussion of the Committee with department officials.**

42. The Committee sought explanation as to why certain clauses in FWA was not amended on the basis of the opinion of Advocate General that “ The clauses pertaining to closing date and 12 % free hold rights were deficient and required re-consideration” . AG had also opined that Government of Kerala had not taken care of specifying the consequences of failure on part of Tecom whereas, Tecom had taken care of incorporating such a clause to safeguard their interests. The Committee further pointed out that the FWA was modified, after the Law Department had vetted the document. More over Specific opinion on Closing Date, implication of 12 % free hold rights and “best efforts” were not obtained from Law Department. While the FWA contains clauses to safeguard the interest of the Company, it fails to protect Government in this regard. The Additional Secretary, E & IT department apprised before the Committee that the draft agreement was seen by both the Law Secretary and the Chief Secretary thereafter, the same was approved by the Cabinet.

### **Conclusions/Recommendations**

43. No comments.

[Audit paragraph 6.9.2 contained in the Report on Land Management by the Government of Kerala with special focus on land for Aranmula Airport and Smart City Kochi (Report No. 6 of the year 2014)]

#### **6.9.2 Dilution of agreement conditions**

The primary objective of the State in the project was generation of employment opportunities. Section 5 of Special Economic Zone Act, 2005 (Central Act) stipulates that the Central Government while notifying any area as SEZ should be guided, among other things, by requirement of creation of employment opportunities.

Audit scrutiny revealed that Government may not be able to ensure the much proclaimed employment generation of 90,000 jobs as the terms and conditions as well as liability of SPV was diluted in the FWA vis-a-vis MoU as detailed below:

Sl. No.	Subject	MoU	FWA
1	Reference	Article 1.4	Article 9
2	Commitment	DIC undertakes that SPV shall together create 33,300 direct jobs in the Smart City in phases as follows	“Tecom shall make best efforts to generate at least 90,000 jobs in 10 years from closing date”
3	Phases fixed to achieve objectives	Three phases - five years, seven years and 10 years	Phases not provided
4	Penalty for shortfall	The SPV shall pay to the GoK a penalty calculated at the rate of ₹ 6,000 per job as applied to shortfall in targets at the end of five, seven and 10 years.	Not provided

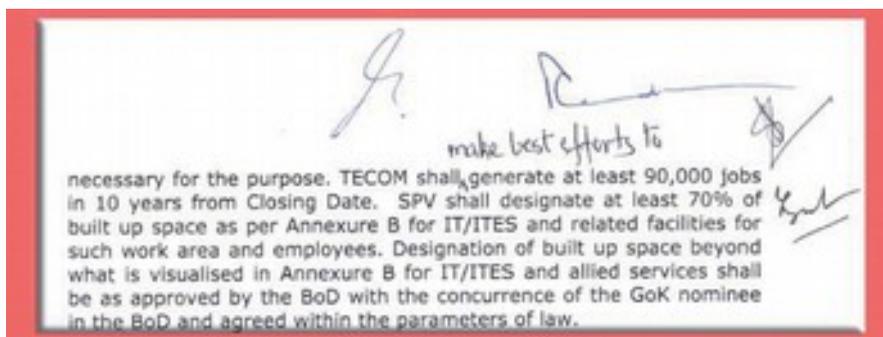
In this connection Audit observed the following:

- The words “make best efforts to” in the FWA absolved the Tecom (SPV) from its obligation to provide employment and slackened their statutory liability.
- The phase of generation of employment, number of direct and indirect employment, penalty for not achieving the target, etc., were not specified in the agreement.

The department replied that the use of the term 'best efforts' would no way allow Tecom to escape from its responsibilities. The remarks of the department are not tenable as a dilution had been made to the original clause. Moreover, no legal opinion was sought for before making the modification 'make best efforts to' ascertain the impact of insertion.

Audit also noticed that the words “ make best efforts to” was inserted subsequently by hand in the original typed FWA which goes against the MoU provisions. There was no record to prove that this modification was examined by Law department.

A scanned copy of a part of the corrected page is shown below:



*[Note furnished by the Government on the above audit paragraph is included as Appendix II ]*

**Excerpts from the discussion of the Committee with department officials.**

44. Regarding the audit para on dilution of agreement condition, an officer from AG remarked that there occurs a discrepancy between the terms in MoU and FWA. In MoU, it is stated that “DIC undertakes that SPV shall together create 33,300 direct jobs in the Smart City” while in FWA it is stated that “Tecom shall make best efforts to generate at least 90,000 jobs in 10 years from closing date”.

The usage of words “Shall make best efforts” in FWA had slackened their statutory liability. The Committee agreed with the remarks of AG and pointed out that the condition in MoU is optional whereas those in FWA is mandatory.

45. An officer from AG further pointed out that the words “ make best efforts” was seen inserted subsequently by hand in the original typed FWA, at the time of signing the FWA, which goes against the MoU provisions. And also there was no records to prove that this modification was examined by the Law department.

46. The Committee understands that this project being a complicated one, had time consuming procedures. There was a break in between the process and FWA was signed after one and half year since Government entered into MoU with DIC. The Committee directed the department to furnish explanation for making modifications in FWA after vetting of the final draft by the Law Secretary thereby diluting the statutory conditions originally included. The Committee observed that there should be clarity on the point of dilution of agreement conditions in the FWA vis-a-vis- MoU.

### **Conclusions/Recommendations**

**47. The Committee observes that the point of dilution of agreement conditions need to be clarified further. The Committee requires the department to furnish an explanation for diluting the terms and conditions as well as liability in the FWA Vis-a-vis-MoU by making modifications in the clauses after the final draft was vetted by the Law Secretary.**

[Audit paragraph 6.9.3 contained in the Report on Land Management by the Government of Kerala with special focus on land for Aranmula Airport and Smart City Kochi (Report No. 6 of the year 2014)]

#### **6.9.3 Clauses favourable to Tecom on default**

There were heavy commitments on Government for attaining closing date requirements, assisting in obtaining SEZ status, assurance regarding water, power, four lane road, making available exemptions, concessions etc. for IT companies

working in the project area for the successful functioning of the project. However, similar condition insisting the developer to commence and complete the built up space and create employment generation were not provided for in the agreement.

As per the FWA, any failure on the part of GoK to fulfill its commitment (Article 7.1.1) would constitute “GoK closing default” or “GoK land default<sup>11</sup>” . Similarly any failure to create 90000 jobs or construct 8.8 million sq.ft. built up space would constitute a default on the part of Tecom.

In case of default, any party could take over the project completely by paying for the share held by the other party. However, these conditions favored Tecom as the possibility of taking over the project by GoK could arise only after ten years of closing date. Also in the event of default by GoK, Tecom and/or its permitted affiliates were not to be subjected to any penal consequences for non-commencement and non-completion of construction of IT/ITeS buildings as per Development Plan. The department did not give any specific reply to the point raised and stated that all steps would be taken to accelerate the pace of the project.

*[Note furnished by the Government on the above audit paragraph is included as Appendix II ]*

### **Excerpts from the discussion of the Committee with department officials**

48. Regarding the audit paragraph, the Committee wanted to know whether any clauses were incorporated in the agreement to safeguard the interest of Government regarding the employment creation, completion of built up space etc. The Additional Secretary, E& IT informed that even though penalty clause was not included in FWA, as per (b) & (c) in Article 7.2.2 in FWA, in case of default, on the part of Tecom, subjected to consequences such as

(b) to terminate the lease and buy out the entire shareholding of Tecom at a price to be determined by an independent valuer taking the value of the land.

(c) To recover all investment made, costs and expenses incurred from Tecom as certified by an independent firm of chartered accountants jointly appointed by the parties.

---

11 GoK land default denotes failure of GoK to complete the process of acquisition and transfer of the land to SPV.

49. He further added that directions regarding the consequences of delay of work has not yet been decided but Government can take back the land and the project and the cost incurred from Tecom as per FWA 7.2.2 (b) and (c). But various criteria will follow from time to time if any discrepancy occurs with FWA. He further submitted that for now job creation and investment are being achieved and that in case Government wants to take any action against Tecom, then Government can activate the clause 7.2.2.(b) & (c).

### **Conclusions/Recommendations**

50. No comments.

[Audit paragraph 6.9.4 to 6.11.1 contained in the Report on Land Management by the Government of Kerala with special focus on land for Aranmula Airport and Smart City Kochi (Report No. 6 of the year 2014)]

#### **6.9.4 Non-provision of penalty, Security Deposit and Insurance in the FWA**

Provisions for penalty, security deposit and insurance are kept in projects to guard against loss due to defaults. However in the FWA, there was no provision for penalty, security and insurance for ensuring the timely construction of infrastructure/ built up space. Thus, if the developer were to fail to adhere to the timeframe, there was no option to levy penalty or recover costs from the Security Deposit and risk of any act or omission of the developer.

#### **6.9.5 Absence of Independent auditors, engineers and valuers**

The FWA should normally provide for appointment of Independent Auditors and Independent Engineers to enable them to monitor the project activities and act on their behalf to evaluate and co-ordinate construction, technical and commercial activities. These provisions were not considered while framing the FWA. Neither the GoK nor the SPV could effectively monitor the delays in achievement of milestones in the absence of appointment of IA/IE.

In response to the above, Government replied that the affairs of SPV are managed by a Board and the decision regarding the project was taken by the Council of Ministers and IT Secretary. It was also stated that Audit and Executive committees, statutory and internal auditors were appointed in addition to a

qualified house team of engineers. The remark is not tenable as it does not address the issue of independent auditors and Engineers as the details of constitution of any of the committee were not produced to Audit for verification. The minutes of Audit Committee, Reports of independent auditors and internal auditors were also not made available to verification.

### 6.10 Financial impact on Government exchequer

GoK had deposited ₹ 87.28 crore in five instalments between April 2008 and September 2013 with Infopark for meeting the expenditure in connection with land acquisition for parcel I. As per details furnished by Infopark, it had incurred ₹ 86.09 crore during the period between April 2006 and September 2013 for meeting land cost, administrative expenses and interest on KSIDC loan.

In addition to the above expenditure, GoK had to pay/bear indirect/implicit cost of ₹43.53 crore as mentioned in para 6.6.2 on additional liability for land in Parcel II.

Audit noticed that apart from the above ₹ 129.62 crore<sup>12</sup> for acquisition and transfer of land in Parcel I and II, actual cost to be incurred on the following has not yet been ascertained:-

- Cost of 13.94 acres of Government land (Parcel III).
- Future liability by way of compensation arising out of land already acquired.
- Construction of four lane road from seaport airport road to Smart City.
- Cost of acquisition of land for the above road.
- Cost for laying electricity line to the periphery of Smart City from the existing substation of KEPIP.

As against the above financial commitment, GoK received ₹104 crore<sup>13</sup> from the SPV as one time lease premium as full and final amount for the 246 acres of land. Later GoK paid ₹31.20 crore in cash to acquire 16 per cent share in the SPV in which GoK has no effective control.

---

12 ₹ 86.09 crore + ₹43.53 crore

13 ₹ 99.15 crore in January 2007 and ₹4.85 crore in July 2008

Had the transfer value of the land been fixed considering the market value prevailing in the State, Government could have fetched more revenue. Due to failure to monetise the realistic/market value of land which was transferred on lease for 90 years, Government suffered a huge loss of revenue which was beneficial to the SPV.

## **6.11 Other findings**

### **6.11.1 Board of Directors**

As per the FWA, the BoD at any time comprises of a maximum of 10 Directors unless otherwise provided in its Articles (3.1.1). GoK is entitled to nominate two Directors on the BoD as long as the GoK holds not less than nine per cent of the share capital of the SPV. The Chairman is to be nominated by GoK from among its two Directors and has one vote like any other Director. The GoK nominees in BoD shall be an officer not below the rank of a Special Secretary to Government or a Minister. The Government (November 2013) nominees were Minister for Industries (Chairman) and Principal Secretary to Government, IT department (Director).

All decisions of BoD shall be by a simple majority of the Directors present and voting. The quorum shall be five members present and voting of which at least three shall be nominees of Tecom and at least one shall be the nominee of GoK. Thus the clauses concerning quorum of Board meeting gave absolute control over decision making to Tecom.

The Chief Minister shall be the chief patron of Smart City. This title is only an ornamental one with no control over the affairs of the company.

*[Note furnished by the Government on the above audit paragraph is included as Appendix II]*

### **Excerpts from the discussion of the Committee with department officials**

51. The Committee wanted to know about the share capital of Government of Kerala in the project and whether there was any provision to enhance the share capital. The witness, Additional Secretary, E&IT department replied that the present share capital is 16% and that it can be enhanced up to 26%. Initial

authorised share capital was ₹ 680 crore and paid up capital was ₹ 120 crore. There was an increase of ₹75 crore in paid up capital in 2011. Now the authorised share capital is ₹680 crore and paid up capital is ₹195 crore.

### **Conclusions/Recommendations**

52. No comments.

[Audit paragraph 6.11.2 contained in the Report on Land Management by the Government of Kerala with special focus on land for Aranmula Airport and Smart City Kochi (Report No. 6 of the year 2014)]

#### **6.11.2 Stamp duty exemption for free hold land**

As per guidelines regarding transactions related to SEZ. on Stamp Duty exemptions, the upfront exemption of Stamp Duty sanctioned by State Government was subject to final settlement of the SEZ or the Developer was to pay the Stamp Duty and refund the same after the formal SEZ notification is issued.

GoK granted stamp duty exemption to whole area of 246 acres while registering lease deed (February 2011). However, the third parcel of 13.94 acres are being not contiguous was not eligible for SEZ status and it was excluded from the revised application for SEZ on 11 January 2013 (as explained in para 6.6.5) Thus the proportionate amount of lease premium of ₹5.89 crore<sup>14</sup> for 13.94 acres was thus not eligible for stamp duty exemption. Hence, granting of exemption of ₹53 lakh<sup>15</sup> (approximately) lacked justification and tantamounted to extension of undue benefits to SPV.

Government has not initiated any steps to realise the unintended Stamp Duty exemption.

*[Note furnished by the Government on the above audit paragraph is included as Appendix II ]*

---

14 104/246 x 13.94

15 Stamp duty seven per cent and registration fees two per cent.

**Excerpts from the discussion of the Committee with department officials.**

53. To the query in the audit paragraph regarding granting of stamp duty exemption of ₹53 lakh for an area of 13.94 acre for the proportionate amount of lease premium of ₹ 5.89 crore, the Additional Secretary, E& IT department justified that the stamp duty exemption was granted with the approval of Cabinet on the advice of Law and Finance Departments.

54. The Committee enquired whether stamp duty exemption of ₹53 lakh can be realised from SPV since no specific decision had been taken regarding free hold land. The Additional Secretary, E& IT department informed the Committee that the stamp duty exemption cannot be realised in this case since in Kerala, all IT investment companies in Technopark, Technocity, which had taken land on lease, are provided the privilege of stamp duty exemption. The same criterion was followed in Smart City project also. Hence there was no undue advantage in this regard. Moreover, it is the Cabinet which has taken the decision to exempt stamp duty, considering it as a specific PPP project.

**Conclusions/Recommendations**

55. No comments.

[Audit paragraph 6.11.3-6.13 contained in the Report on Land Management by the Government of Kerala with special focus on land for Aranmula Airport and Smart City Kochi (Report No. 6 of the year 2014)]

**6.11.3 Failure to produce records to audit**

The crucial records such as minutes of the meetings held from July to October 2004 between DIC and GoK, proposal from DIC, (13 December 2004) and other correspondence were not provided to audit, despite reminders and several round of discussions with IT Secretary:

Replies to certain queries raised by audit are yet to be received from the IT department (GoK, Audit intended to scrutinise the Agenda Note and Board Minutes of the SPV. However IT Secretary refused to provide the records to audit violating the provisions contained in Article 59 of Kerala Financial Code Vol. I.

In the absence of these records audit was not in a position to comment whether Tecom was the best available option and the selection had been made in a transparent manner. The reluctance to provide records raises serious concerns about the transparency of the process. This doubt has been strengthened by the drafting of the terms of the FWA imposing heavy responsibility on GoK and incorporating many terms to the advantage of Tecom.

To understand the basis for fixing the land area as 246 acres and the one time lease premium as ₹ 104 crore with its justification, audit called for the files. IT department did not produce the records relating to method of valuation of the project, records relating to extent of land required, fixation of lease premium, period of lease etc. This reluctance to hand over the files further pointed towards the lack of transparency and raises strong concerns on an attempt to extend undue favour to the SPV. The department stated that all files and documents were submitted to audit. The reply is incorrect as the initial records pertaining to the minutes of various discussions held between the representatives of GoK and Tecom, project evaluation, DPR submitted by Tecom, fixation of lease premium etc. were not made available to audit.

## **6.12 Conclusion**

There was undue favour given to the SPV at almost every stage of the project starting from the selection of partners without any expression of interest. A low one time lease premium was fixed without considering the market value. Excess land was given. Unlike the IT parks established by Government, the lessor was granted freehold rights over 12 per cent of the area of land at any point of time. The agreement conditions in respect of creation of 90000 jobs were diluted in the agreement and made incapable of being translated into enforceable targets/deliverables. The Government nominee has only a minor role in the Board of Directors.

Agreement conditions in the FWA were strongly tilted in favour of Tecom and against GoK. While legal action was possible against GoK for defaults in providing minimum infrastructure, it was not possible against Tecom for lack of co-operation in this regard. This led to indifferent approach of SPV which did not identify suitable locations inside the project area for the installation of sub-station,

construction of water tank for storing one MLD water (one million litre per day) etc., as required in the FWA, delaying Government's efforts in providing minimum infrastructure.

Neither the Government nor the SPV is able to spell out any precise timeframe within which the project can achieve the objectives. Even after seven years from signing the agreement, construction of 8.8 million sq.ft. built up space and creation of 90000 jobs are far from sight.

### **6.13 Recommendations**

Audit recommends that:

- Projects and schemes of mega size should be planned, designed and executed in an open and transparent manner, safeguarding the financial and socio-economic interests of the State;
- When prime industrial land is provided to boost economy, GoK should ensure that the land provided is only as per requirement;
- Government should include clauses in agreements to ensure that the land is not used for real estate development purposes by private developers; and
- Government should prescribe a monitoring mechanism to ensure that physical progress goes in tandem with the periodical milestones fixed. A high power body may be constituted for a continuous monitoring mechanism which may address the hindrances in the achievements of the milestones so that undue delay could be avoided and desired results achieved.

*[Note furnished by the Government on the above audit paragraph is included as Appendix II ]*

### **Excerpts from the discussion of the Committee with department officials.**

56. To the audit query of failure to produce records to audit, the Additional Secretary, E& IT department informed the Committee that all proposals received from DIC had been examined by High level Committee and minutes of Committee meetings submitted for auditing. But he added that he is not sure whether the submitted documents were included in the minutes of the meetings held for scrutiny.

57. Committee was not satisfied with the Government reply. An officer from Accountant General stated that clarification is needed for giving 12% free hold right, when the lease deed itself is for 99 years. Government is taking that only after achieving the target of built up space and the employment that has to be provided. But even after achieving that, the lease agreement exists for 99 years and there is a clause that at any point of time this 12% free hold rights can be invoked.

58. The witness, Additional Secretary, E & IT department answered in detail that until the conditions of 8.8 million sq. ft. built up space and 90000 jobs are accomplished, Government will not activate that clause. Even freehold right is given by Government within the lease period of 99 years only. Private flat buyers need some sort of assurance and if Government interference was included in lease deed, they won't be interested in that property. The Committee further enquired whether sub leasing is possible for the property. The witness replied that subleasing is possible otherwise reputed companies won't be interested in taking up such projects.

59. After the discussions, Committee analyzed the points raised by audit and Government stand on the issues pointed out. Committee decided to include and highlight the following main points apart from other recommendations in the report.

1. Reluctance of Government in providing crucial records such as minutes of meetings, correspondence, letters, etc. to audit for scrutiny.
2. Implementation of projects of such mega size commencing without a Master Plan.
3. Settlement of liability to KSEB.
4. Reason for grant of 12% free hold right to SPV and how can Government profit from this clause.
5. No specific clause in FWA restraining sub leasing of property.
6. Non-fixation of closing date.
7. Non-finalisation of precise time frame within which the project can achieve the objectives.

8. Amendments made in FWA diluting the statutory conditions originally included.

9. Agreement conditions in FWA strongly tilted in favour of SPV wherein legal action is possible against GoK for defaults in providing minimum infrastructure and not against SPV for lack of co-operation in this regard.

10. Fix periodical milestones in implementation of project.

11. Monitoring mechanism to ensure that physical progress goes in tandem with periodical milestones fixed.

12. A high level Committee to monitor the progress of implementation so that undue delay could be avoided.

#### **Conclusions/Recommendations**

60. No comments.

SUNNY JOSEPH,

*Chairman,*

*Committee on Public Accounts.*

Thiruvananthapuram,  
16<sup>th</sup> March, 2022.

## APPENDIX I

## SUMMARY OF MAIN CONCLUSIONS /RECOMMENDATIONS

Sl.No.	Para No.	Department Concerned	Conclusion/Recommendations
1	2	3	4
1	23	Electronics and Information Technology Department	The Committee observes that the KSEB is willing to settle the dispute regarding the amount of compensation for the transfer of its land to parcel II land with an amount of ₹ 7.57 Crore, as approved by the cabinet, with interest. The Committee recommends the E&IT department to settle the dispute by paying the compensation, amounting to ₹ 7.57 Crore, with interest till date to the KSEB, if it is not settled so far.
2	30	Electronics and Information Technology Department	The Committee directs the department to furnish the progress of rehabilitation of the four families who have been living in the project area, which was hampered due to the delay in making payment by the SPV for acquisition of 19 cents of land identified under fast track project for ₹1.09 crore.

1	2	3	4
3	41	Electronics and Information Technology Department	The Committee directs the Department to furnish a statement with updated status of the construction work in line with the development plan of IT Parks, including built up space and the job opportunities created so far.

- 47 -

**APPENDIX II**  
**NOTES FURNISHED BY THE GOVERNMENT**

**GOVERNMENT OF KERALA**  
**ELECTRONICS & INFORMATION TECHNOLOGY (A) DEPARTMENT**

**Statement of Action Taken on the Report No.6 of the year 2014**

Sl.No	Para	Recommendation	Action taken by the Government
1.	6.1	<p>Information Technology/Information Technology Enabled Services (IT/ITeS) has become one of the most significant growth catalysts for the Indian economy over the years. During this booming phase, Government of Kerala (GoK) established two successful IT parks - Technopark, Thiruvananthapuram and Infopark, Kochi (Infopark).</p> <p>In January 2006, GoK formed a joint venture company with the status of a Special Purpose Vehicle (SPV) termed Smart City (Kochi) Infrastructure Pvt. Ltd., with TECOM Investments FZ LLC, Dubai (Tecom) for setting up a knowledge based IT/ITeS township in Kochi. Tecom is a subsidiary of Dubai Holding, an investment company owned by the Government of Dubai. Tecom develops infrastructure for Internet and Communications Technology (ICT) companies through its subsidiary Dubai Internet City (DIC).</p> <p>GoK entered (September 2005) into a Memorandum of Understanding (MOU) with DIC for above township in Kochi which is subsequently followed up with a Framework Agreement (FWA). The FWA was executed (May 2007) with GoK, Infoparks Kerala, Tecom Investment FZ-LLC and SPV to implement the project. The scope of the project</p>	No remarks

Sl.No	Para	Recommendation	Action taken by the Government
		<p>includes construction of built-up area of 6.22 million sq. ft. IT/ITeS office space, 0.55 million sq. ft. commercial area, 2.11 million sq. ft. residential area and other spaces as approved at an estimated investment of Rs.1,700 crore.</p> <p>This project was to take off within a period of 10 years in 8.8 million sq.ft! built up space and was expected to generate 90,000 jobs by providing IT infrastructure to IT/ITeS companies. Keeping the objective in view, Gok leased out (in 2007 and 2008) 246 acres of land to SPV for 99 years under FWA in return for a one time lease premium of Rs.104 crore.</p> <p>Since transfer of a large extent of land was involved in the project for development of infrastructure, a Performance Audit on the project was conducted for inclusion in this Report.</p>	
2.	6.1.1	<p><b>Capital Structure and share holding pattern of SPV</b></p> <p>The initial authorised share capital of SPV was Rs.680 crore with an initial paid up capital of Rs.120 crore comprising of equity shares of Rs.10 each. The shares are subscribed by the parties in the ratio of 84 per cent by Tecom through its permitted affiliates and 16 per cent by GoK. The Board of Directors (BoD) is to make capital calls for funding the cost of the project as may be necessary from time to time.</p> <p>The SPV had called up 7.5 crore shares to enhance share capital by Rs.75 crore (in 2011). The present total paid up capital of SPV was Rs.195 crore.</p>	No remarks

Sl.No	Para	Recommendation	Action taken by the Government
3.	6.1.2	<p><b>Agreements governing Smart City project</b></p> <p>The rights and obligations of the partners within the joint venture are governed by mutually agreed terms in a formal agreement. The agreements that governed the relationship were Memorandum of Understanding (MoU), the FWA and lease deeds.</p> <ul style="list-style-type: none"> <li>• Memorandum of Understanding - The MoU signed on 9 September 2005, was only an understanding between the parties, which was to be replaced by a legally valid the FWA within 90 days from such date, unless agreed otherwise by both the parties in writing. Though the validity of MoU expired on 9 December 2005 it was not extended further.</li> <li>• Frame Work Agreement — Using the MoU as a basis, both the partners worked out the modalities for implementing the project and specified the mutual rights and obligations in the FWA. A formal legally binding document was signed on 13 May 2007.</li> </ul> <p>The FWA was the most important document that governed the formation and operation of the project and the future relationship between the partners.</p>	No remarks
4.	6.2	<p><b>Audit objectives</b></p> <p>The objectives of the performance audit were to assess and evaluate whether the:</p> <ul style="list-style-type: none"> <li>• Project was conceived in a transparent manner;</li> </ul>	No remarks

Sl.No	Para	Recommendation	Action taken by the Government
		<ul style="list-style-type: none"> <li>• Selection of partners of the project was in a transparent manner;</li> <li>• Objectives of the project could be achieved within the specified time frame;</li> <li>• Acquisition/transfer of 246 acres of land for the project was transparent ensures the interest of the State and the period of lease was justified;</li> </ul>	
5.	6.3	<p><b>Audit criteria</b> Audit criteria includes:</p> <ul style="list-style-type: none"> <li>• Memorandum of Understanding (MoU).</li> <li>• Frame Work Agreement (FWA).</li> <li>• Lease deeds.</li> <li>• Orders issued by various departments of GoK/Government of India (GoI) with reference to Smart City Project and other Special Economic Zones(SEZ)</li> <li>• Articles of Association and Memorandum of Association of SPV.</li> <li>• Board Minutes and Annual Accounts of SPV.</li> <li>• SEZ Act 2005, SEZ Rules 2006 and Minutes of Board of Approval for SEZ (GoI) in India.</li> </ul>	No remarks
6.	6.4	<p><b>Audit scope and methodology</b> A Performance Audit was conducted between January 2013 and September 2013 covering the period from the formation of the project till September 2013. An entry meeting was conducted on</p>	No remarks

Sl.No	Para	Recommendation	Action taken by the Government
		<p>17 April 2013 with the Principal Secretary, Information Technology Department (GoK) wherein the scope of audit, objectives and criteria adopted for audit were discussed. Records regarding the initial discussions for the Smart City project, the MoU (2005), the FWA (2007), lease deeds, orders issued by various departments of GoK/GoI with reference to Smart City Project, financial statements of SPV for five years from 2007 to 2011, adherence of SEZ Act, 2005 for the project were scrutinised. The audit findings and conclusions were discussed at an exit meeting held with the Principal Secretary (IT) on 13 January 2014 and the remarks of the Government side have been suitably incorporated.</p> <p>Audit findings were drawn after scrutiny of the available data by issuing audit enquiries and obtaining replies thereon received from the IT department (GoK) and entities related to the project. Audit relied upon information collected from Government controlled other IT parks like Technopark and Infopark with regard to employment potential and space requirement.</p>	
7.	6.5	<p><b>Audit findings</b></p> <p>The major findings observed during audit were as follows:</p>	No remarks
8.	6.5.1	<p><b>Project conceptualisation</b></p> <p>GoK encouraged and attracted the IT industry through its two successful IT parks and helped the</p>	Smart City Kochi (SCK) was structured as a project different from other IT Parks. In no other States of the country, there is a situation that Government acquires

Sl.No	Para	Recommendation	Action taken by the Government
		<p>State to emerge as one of the fastest growing IT sectors in India.</p> <p>Technopark, Thiruvananthapuram established in 1994, with a project area of about 180 acres is the third largest IT park in India, provides direct employment to 42,500 employees. Infopark Kochi established in 2004 has employment strength of 18,500 and is still pursuing/undertaking several other projects to boost the IT industry and also the employment opportunity in Kerala. Infopark has campuses at Cherthala and Koratty also. Infopark has constructed a built-up area of 1.2 million sq ft for IT/ITeS companies across its three campuses. Out of this 2.2 lakh sq ft is yet to be occupied in Infopark Cherthala.</p> <p>In this scenario, justification and necessity of taking up another IT city with a new SPV within immediate vicinity of Infopark Kochi and using the services of Infopark to acquire the land for the new venture is not appreciated and no records articulating the justification was provided to Audit. No feasibility study has been conducted for the project. Further, justification for taking up a meagre 16 per cent equity capital in the SPV by the GoK was also not on record.</p>	<p>land, construct IT buildings and markets the same among potential IT companies. Tier 1 cities have large private sector engagement in all these. In Tier 2 cities, very often Government provides the land, but the rest of the investment is made by private sector commercial real-estate builders. This optimises the government expenditure, brings in more private sector investment and also effective framework for the marketing of the destination leading to accelerated growth of the sector. Smart City Kochi was envisaged to be such an initiative where the capability of the private sector commercial space developer, that too an international developer, associated with Dubai Government was to be leveraged. The feasibility of the project was studied and presented by Dubai Internet City (DIC), who was the international firm came forward with the proposal to invest in the project. Government of Kerala as per GO(Ms) No 01/2005/ITD dated 13.01.2005 (Annexure : 3) had constituted a High Level Team under chairmanship of the Chief Secretary of the State and the team held detailed discussions with DIC and evaluated the proposal at different levels (including the legal status of the proposer) on behalf of Government of Kerala as part of the steps in drawing up the Frame Work Agreement with the firm.</p>
9.	6.5.2	<p><b>Non-transparency in selection of partner</b></p> <p>GoK identified the partner, in an exhibition at Dubai. In the selection process, all established practices were overlooked as explained below.</p>	<p>Kerala has been participating in GITEX and many international trade events and reached out to clients for proposals. However, GoK have not been in receipt of any</p>

Sl.No	Para	Recommendation	Action taken by the Government
		<p>Normally in mega projects, the partner is identified after a series of steps to ensure proper planning, transparency and competition. However GoK initiated the Smart City-Kochi Project without inviting any expression of interest/proposals of other players in the field. It held direct negotiation with Dubai Internet City (DIC) at an exhibition which was visited by a team of officials and awarded the "Smart City-Kochi" project to "Tecom Investment" without conducting any feasibility study or other evaluations as indicated in the report below:</p> <p>GoK tried to justify the action stating that DIC was selected as they are the largest Information and Communication Technology (ICT) business park in the Middle East owned by Government of Dubai and more than 850 companies operate out of it. As part of their programme of "Going Global" DIC had plans to set up an IT Park in South India in association with premium IT companies. Gok had accepted the proposal of DIC after having discussion at various levels and evaluating the proposals in its totality. However, the files relating to the credentials of DIC were not made available for scrutiny.</p> <p>Gok stated that Tecom is a subsidiary of Dubai Holding —a Dubai Government undertaking. However in absence of the share holding pattern, audit was not able to establish the real identity of the owners/promoters of Tecom.</p> <p>Parties were identified without following the established procedures and practices. After Tecom was identified, GoK had a series of negotiations to</p>	<p>other major proposals to implement large IT Park, but for the proposal submitted by DIC. The proposal for SCK was conceived and developed by DIC and was presented to GoK and hence, there was no question of calling Expression of Interest from others. Further, GoK examined the worth of the proposer before getting into the Frame Work Agreement and convinced that DIC is the largest Information and Communication Technology (ICT) businesspark in the Middle East owned by Government of Dubai, as a Free Economic Zone and a strategic base for IT. More than 850 companies operate out of DIC. DIC is a member of Dubai Holdings Subsidiary "TECOM Investments", the corporate entity constituted under Law No 1 of 2000 of the Emirate of Dubai as amended by its Law no 9 of 2003. GoK had also verified the legal status of TECOM and ensured that TECOM is a juristic person and is authorised by law to enter into MoU/ Agreements with third party and capable of being sued in its own name. Government of Kerala as per GO(Ms) No 01/2005/ITD dated 13.01.2005 had constituted a High Level Team under chairmanship of the Chief Secretary of the State and</p>

Sl.No	Para	Recommendation	Action taken by the Government
		<p>chalk out the modalities for implementing the project which led to MoU and the FWA. The IT department of GoK however did not produce copies of minutes of discussion/negotiations with DIC to Audit.</p>	<p>all the deliberations and evaluations on the project and charting out of the Frame Work Agreement had been carried out transparently by this High Level Team.</p>
10.	6.6	<p><b>Land issues</b></p> <p>GoK leased out 246 acres of land' in three non-contiguous parcels in 2007 and 2008 for a one time lease premium of Rs.104 crore and annual rent of Rs.one per acre. SPV paid the amount on 15 November 2007 and 29 July 2008 and took possession of the land. Out of this, Parcel I measuring 131 acres received SEZ status in March 2011. In addition an extent of 167 acres was identified as future land to be given when required.</p> <p>Land being a highly priced finite resource in Kerala, GoK should have ensured that land acquired and handed over to the private partner was not more than what was essential for the project. However GoK not only handed over the land that was more than required but also at a cost below the market value/ acquisition cost. Besides, the SPV/Tecom enjoy the right to convert 12 per cent of the total leased land as free hold at any point of time which gives scope for the manipulation of the objectives of the project. These points are described below:</p>	<p>The question of whether the extent of land handed over for SCK was indeed essential for the project is to be considered with the perspective that Smart City was structured as a self contained city which will be a "walk to work" township. Apart from the creation of IT Commercial Space to be occupied by IT Companies where jobs would be created, the project envisages residential facilities, social infrastructure and all other support facilities for a dynamic IT ecosystem to flourish.</p> <p>One of the major issue which have been repeatedly flagged by all IT companies, particularly those from outside the State, has been that the Social Infrastructure of the State is not at par with the other major IT destinations in the world and this issue was sought to be addresses through the Smart City.</p>

Sl.No	Para	Recommendation	Action taken by the Government
11.	6.6.1	<p><b>Short realisation of land value</b></p> <p>Information Technology department, GoK had informed (July 2006) Dubai Internet City (DIC) that Government was willing to acquire land and hand over the same to DIC, provided DIC pays for the land at market prices or at prices normally realised from IT firms.</p> <p>The lessor (GoK) received Rs.104 crore as one time lease premium being the full consideration for 246 acres of land. The one time lease premium charged by GoK works out to Rs.42.27 lakh per acre.</p> <p>Infopark, Kerala which develops IT parks in Kerala also lease out land to IT firms for establishment of IT parks at Kochi. The rate of lease in the adjacent areas of Smart city for 90 years was Rs.69 lakh per acre during 2007. On one occasion, Infopark Kerala opted for bid system and got Rs. 5.50 crore per acre (2008) for five acres of land leased to a client (M/s Brigade Enterprise) for 90 years. Considering the rate of Rs.69 lakh per acre by Infopark as the market rate in 2007, the rate fixed by GoK for the SPV was only 61 per cent i.e. 42.27 lakh per acre. In view of the lease premium received for adjacent land of Infopark, the total amount short realised on 246 acres works out to Rs. 65.75 crore.</p> <p>It was also noticed that land belonging to KINFRA which was adjacent to SPV for IT/ITeS was transferred at the rate of Rs.1.50 lakh for one Cent at Kakkanad, Kochi. In reply the department stated that high cost lands are not viable, that Government</p>	<p>The land parcels with the total area of 246 acres provided for SCK was totally raw and undeveloped land devoid of internal roads and other infrastructure like power, water supply and communication facilities. This cannot be directly compared with the land leased by KINFRA and Infopark in their vicinity and were more easier to access from the urban centres and were provided with internal roads and other infrastructure facilities. Regarding the 246 acres, apart from 10MVA power to start with, provision for 1MLD water and general road access, the rest of the developments are to be taken up by the Lessee (the SP V) and hence the pricing of land could not be given on a one to one comparison with that of M/s Brigade Enterprise or other similar firms who took small acreages of land inside the fully developed lands of Infopark or KINFRA.</p>

Sl.No	Para	Recommendation	Action taken by the Government
		<p>has to support large infrastructure development to create jobs and cost of operation in Kochi compared to other cities like Bangalore was high and rent receivable was low. The remarks of the department are not tenable as the land transferred to Smart City was at the rate of Rs.42,000 for a Cent as against Rs.1.50 lakh for a Cent leased by KINFRA and much less than the lease premium received by Infopark. Further remarks are awaited.</p>	
12.	6.6.2	<p><b>Additional liability for KSEB land in Parcel II</b></p> <p>KSEB possessed 194.87 acres of land for Brahmapuram Diesel Power Project (BDPP) out of which 100.65 acres (Parcel II) of land was transferred to R&amp;DM department in July 2007 for the purpose of handing over to Smart City project on lease basis subject to the following conditions:</p> <ul style="list-style-type: none"> <li>• Value of the land will be determined and paid by Government to KSEB later; and</li> <li>• Additional compensation ordered to be paid in land acquisition appeal cases in respect of lease land shall be paid by GoK through R&amp;DM department.</li> </ul> <p>R&amp;DM department fixed the land value to be given to KSEB for the transfer of land as Rs.7.57 crore (April 2008). The compensation was not accepted by KSEB for the reason that the transferee was a purely commercial entity and the compensation was less than the market value. The matter continues in dispute. As against a demand of</p>	<p>The land transferred from KSEB was acquired by them as back as in 1993 and the same was lying vacant since then. Hence the contention of KSEB requesting for higher compensation is not justifiable, considering that there was no particular use earmarked by KSEB and the decision of GoK to take over that land parcel was to enhance the opportunities within IT corridor of Kochi and thereby to put it for more economic value to the State. Even as on date, a large portion of the land acquired for KSEB is lying vacant without any value addition to the State or to the society at large and that too for more than two decades.</p>

Sl.No	Para	Recommendation	Action taken by the Government
		Rs.43 crore by Power department/KSEB, Government had fixed the compensation at Rs.7.57 crore creating a probable additional liability of Rs.35.43 crore.	
13.	6.6.3	<p><b>Non-assessment of land required</b></p> <p>In projects involving transfer of large extent of land, Government should have made an assessment justifying the allotment of land. GoK did not conduct any study to assess the requirement of land to achieve the stated objective as discussed below.</p> <p>SPV envisaged construction of 8.8 million sq.ft. of built- up space so as to create 90,000 jobs. The construction was to be based on a master plan approved by the BoD of the SPV. Even after a lapse of seven years of execution of the FWA, the department did not prepare the master plan (January 2014). In the absence of a master plan, audit was not able to ascertain the requirement of the built up space and the necessity of 246 acres of land for the project.</p> <p>Hence, Audit tried to assess the land requirement for 8.8 million sq.ft. built- up space on the basis of Kerala SEZ policy, which stipulates 70 per cent of SEZ land to be utilised as processing area and balance 30 per cent as non- processing area. Adopting Floor Area Ratio (FAR) of 1.5 to 2.5 as stipulated by Kerala Municipal Building Rules, 60,984 sq. ft. of built up space could be constructed in one acre as shown below:-</p>	<p>It is to be considered that the land provided for SCK was totally raw and undeveloped land devoid of internal roads and other infrastructure like power, water supply and communication facilities. Also it may be noted that the project was envisioned as a self contained city which will be a "walk to work" township. Hence a very academic assessment of land required for construction of proposed 8.8 million sqft of built-up space, based only on the allowable Floor Area Ratio (FAR) is misleading. The land development for SCK is required for accommodating proposed built up space should include much more facilities like the internal roads, trenches &amp; drains, substations water treatment plant, water storage tanks, rain water harvesting structure and a whole spectrum of basic infrastructural facilities. The parking area requirement itself is substantial for a facility of this magnitude, which even at a thumb rule calculation would be more than 20 acres. As per the approved Environmental Clearance from State Environmental Impact Assessment Authority (SEIAA) the project need to maintain 33% of the total land area as green area. Additionally it was mentioned in the environmental clearance that a no construction zone of 10 metres is to be maintained along the boundary of Kadambayar. Moreover, the land provided to SCK includes three water bodies with a total</p>

Sl.No	Para	Recommendation	Action taken by the Government				
		<p>One acre = 43,560 Sq.ft</p> <table border="1" data-bbox="349 368 1196 667"> <tr> <td data-bbox="349 368 768 499">Processing area as per Kerala SEZ Policy</td> <td data-bbox="768 368 1196 499">30,492 sq.ft. (70 per cent of total area) ie 70% of 43,560 sq ft</td> </tr> <tr> <td data-bbox="349 499 768 667">Built up space available for an FAR of 2 for one acre of land</td> <td data-bbox="768 499 1196 667">60,984 sq.ft. (30,492x2)</td> </tr> </table> <p>i.e. in one acre 60,984 sq.ft. built up space can be constructed.</p> <p>Therefore for constructing 88 lakh sq.ft. (FAR 2), only 144 acres of land was necessary.</p>	Processing area as per Kerala SEZ Policy	30,492 sq.ft. (70 per cent of total area) ie 70% of 43,560 sq ft	Built up space available for an FAR of 2 for one acre of land	60,984 sq.ft. (30,492x2)	<p>extent of around 4 acres which are to be protected and maintained with appropriate landscaping around them. It is to be admitted that the requirement of providing connectivity between major two parcels of land allotted to the SPV is still unfulfilled, due to the fact that the acquisition of the land parcel required for construction of the connecting bridge could not be realised as the Hon'ble Supreme Court of India has ruled the appeal in favour of the petitioner. Further steps in this regard is under consideration.</p>
Processing area as per Kerala SEZ Policy	30,492 sq.ft. (70 per cent of total area) ie 70% of 43,560 sq ft						
Built up space available for an FAR of 2 for one acre of land	60,984 sq.ft. (30,492x2)						
		<p>IT department failed to explain the basis of estimation as there were no records available with the department on which the estimate of required land was arrived at. In reply, department stated (January 2014) that land provided were in line with development plans and taking Municipal Building Rules and Floor Area Ratio (FAR) as the basis for IT Parks of international standards which require Floor Area Ratio of not more than 1.5 to 2. The reply is not tenable as it would violate the criteria of 70:30 ratio for land utilisation as per Kerala SEZ Policy. Further even after complying with the FAR of 2 as mentioned in the reply, the allotment of 88.06 acres of land in Parcel II and 13.94 acres in Parcel III was not necessary.</p>					

Sl.No	Para	Recommendation	Action taken by the Government
		<p>Further, there was no connectivity among the parcels of land allotted to SPV. As the SEZ Act stipulates contiguity as a pre-condition for granting SEZ status, the second and third parcel of land were not eligible for SEZ status. The SPV received SEZ status only for Parcel-I (131 acres).</p>	
14.	6.6.4	<p><b>Grant of freehold rights</b></p> <p>As per para 5.4 of the FWA, upon completion of master plan, SPV will identify plots to be converted to freehold and such plots will be converted to free hold by Gok forthwith without any further consideration or charges. Cumulative area of the plots converted to freehold will not exceed 12 per cent of the total land area at any point of time.</p> <p>As per SEZ Rules the land inside SEZ is not alienable, while that outside is alienable. The SPV has received SEZ status for Parcel-I (131 acres). Thus, it enjoys absolute free hold right of 29.52 acres on the remaining 115 acres of land without SEZ status. Further due to the clause "<i>at any point of time</i>", SPV will have a claim for 12 per cent of future land also. Thus this clause gives SPV undue advantage in terms of retention of land. SPV also reserves the right to identify the plot to be converted as free hold as per the FWA.</p> <p>Thus Gok favoured SPV, where Tecom is the major share holder (84 per cent), to obtain 12 per cent free hold right of the land at any point of time. The department stated that in order to develop a</p>	<p>Clause 2 (XIII) of the 2nd lease deed restricts further alienation or sale of freehold land that may be allotted to the SPV in due course of time as per the Frame Work Agreement.</p>

Sl.No	Para	Recommendation	Action taken by the Government
		<p>Smart City as an IT township, limited free hold rights are to be enjoyed by the developer. Since the free hold is not saleable and not alienable within SEZ, no undue benefit would be gained by the developer. The reply is not tenable as 115 acres is outside the SEZ and hence, it is alienable.</p>	
<b>Development issues</b>			
15.	6.7	<p><b>Delay by SPV in implementation of development plan.</b></p> <p>Even though the GoK had provided 246 acres of land for the project in terms of the FWA in 2007, the initiative by SPV was not proactive. A few instances are as follows.</p> <ul style="list-style-type: none"> <li>• Delay in Registration: The lease deeds for the 246 acres of land were originally executed between GoK and Smart City Kochi in two parts on 15 November 2007 (131.41 acres) and 29 July 2008 (114.59 acres). But the SPV delayed registration of the lease deeds on the pretext of seeking exemption from stamp duty and registration fees (Rs.9.36 crore at the rate of seven per cent stamp duty and two per cent registration fee). SPV obtained stamp duty and registration fees exemption for the lease deeds vide Government Orders (GO) dated 14 October 2008 and 8 February 2011 and thereafter registered the deeds on 23 February 2011 only.</li> <li>• In response, the department stated that</li> </ul>	<p>Even though there was initial delay in the implementation of the development Smart City, Kochi has constructed a building having a total built up area of 6.5 lakhs sq.ft which is currently occupied by 32 IT/ITeS companies more than 3,500 employees are employed by these companies. Additionally Smart City, Kochi has entered into development agreements with 6 co-developers for developing IT/ITeS commercial and institutional projects. The project also has a K to 12+ school operated by GEMS Education International.</p>

Sl.No	Para	Recommendation	Action taken by the Government
		<p>registration of original lease deeds were not delayed for non-receipt of stamp duty exemptions but for other reasons. The reasons were however not explained by the department. The fact remains that these documents were registered only in February 2011 (delay of 40 months and 32 months respectively).</p> <ul style="list-style-type: none"> <li>• Department of Commerce (DoC), GoI issued formal approval during April 2008 to Smart City Kochi for setting up of a sector specific SEZ for IT/ITES in Cochin and notified (1 March 2011) an area of 53.1809 ha. (131 acres) of land as SEZ. However seven years after signing of the FWA and six years after getting formal SEZ approval for 131 acres of land, no progress was made either in the construction of building or in employment generation except fencing the boundary, construction of a pavilion and appointment of consultants. SPV has not even appointed full time CEO/company secretary/office staff till 2010.</li> <li>• GoK expressed (3 September 2010) its discontent to SPV for the delays in achieving Closing Date, registering the lease deeds in time and SPVs interpretation of free hold land and cautioned the SPV to expedite the implementation of the project. The reference made by Government was not acted upon by SPV even after three years and this confirms</li> </ul>	

Sl.No	Para	Recommendation	Action taken by the Government								
		<p>the indifferent approach of SPV towards the objective of the project.</p> <ul style="list-style-type: none"> <li>The request of SPV to acquire about 19 Cents of patta land, for rehabilitation of four families living in the project area, at SPV's expenses was agreed to by GoK vide GO dated 29 November 2008. The land had been identified by Infopark and the land acquisition was ordered under Fast Track Project. It was decided to fix the price of land at 1.09 crore at the rate of Rs.4,65,854 per Cent. Delay by the SPV in making payment for acquisition is delaying rehabilitation of the four families and initiation of development activities in Parcel II.</li> </ul>									
16.	6.8	<p><b>Impact of 'Closing date' and 'Minimum infrastructure' with penalties for default (Article 1.1 and 7.1) of the FWA.</b></p> <p>A most crucial milestone in the implementation of the project was fulfilment of conditions set forth in the FWA regarding "Closing date".</p> <p>As per the FWA "Closing date" means the date following the Developer Status Attainment Date on which all of the following events have occurred. The SPV obtained developer status on 21 April 2008.</p> <table border="1" data-bbox="349 1362 1189 1528"> <thead> <tr> <th data-bbox="349 1481 416 1528">Sl</th> <th data-bbox="416 1481 719 1528">Requirements</th> <th data-bbox="719 1481 875 1528">Respons</th> <th data-bbox="875 1481 1189 1528">Present status</th> </tr> </thead> <tbody> <tr> <td colspan="4" data-bbox="349 1362 1189 1481">Table showing the present position of Developer Status attainment date</td> </tr> </tbody> </table>	Sl	Requirements	Respons	Present status	Table showing the present position of Developer Status attainment date				<p>Closing Date shall mean the date following the Developer status attainment date on which all of the following events have occurred.</p> <ol style="list-style-type: none"> <li>Completion of Minimum Infrastructure: Upon finalization of concept master plan, SmartCity commenced the infrastructure inside the land allotted. Status: Achieved</li> <li>Receipt of SEZ Notification in favour of SPV: Status: Achieved with 1<sup>st</sup> notification of 131 acres received in 2011, the second notification for balance 100.65 acres received in 2014.</li> <li>Receipt of statutory approvals for construction: Status: Achieved for <b>SmartCity, Kochi 01</b> and</li> </ol>
Sl	Requirements	Respons	Present status								
Table showing the present position of Developer Status attainment date											

Sl.No	Para	Recommendation				Action taken by the Government
		No		ibility		
		1	Completion of Minimum Infra-structure like one MLD water, 10 Mega Watt Power and 24x7 road access through PWD road (Article 1.1).	GoK	The SPV failed to identify the location.	Phase 1 Infrastructure d) Execution of the lease deed: Status: Closed with two lease deed for 3 land parcels, with the last deed signed in 2011. e) Completion of acquisition and transfer of the Land in favour of SPV: Status: Achieved: f) Transfer of 16% share in SPV in favour of GoK. Status: Achieved
		2	Receipt of the SEZ Notification in favour of SPV (Article 4.1).	GoK assist	Gol - Department of Commerce has provided SEZ status on 1 March 2011 for 131.41 acres only.	
		3	Receipt of statutory approvals for construction (Article 4.1).	GoK assist	Obtained on 21 April 2008 vide letter No. F.2/74/2006 SEZ dated 21 April 2008 — Para 3 (xviii).for 4.1). 131.41 acres only	
		4	Execution of the lease deed (Article 2.6).	GoK	Executed on 15 November 2007 and 29 July 2008 which was cancelled on	

Sl.No	Para	Recommendation		Action taken by the Government
			23 February 2011 and re-executed and registered on 23 February 2011.	
		5	Completion of the acquisition and transfer of the land in favour of SPV (Article 2.6).  GoK  Original registration 15.11.2007 - 234.54 acres 29.7.2008 - <u>11.46 acres</u> 246.00  <u>On re-registration</u> 23.2.2011- Deed I 131.41 acres Deed II — <u>114.51 acres</u> 245.92 acres	
		6	Transfer of 16 per cent share in SPV in favour of GoK (Article 3.3.1)  GoK  GoK had invested an amount of Rs.31.20 crore in SPV towards share capital.	
Out of the above mentioned six conditions, only three (4, 5 and 6) have been fully achieved so far (September 2013). Audit observed that the obligation of SPV as per the FWA begins only on the compliance				

Sl.No	Para	Recommendation	Action taken by the Government
		<p>of conditions by GoK, which however could not be attained without reciprocal commitment on the part of SPV. The conditions agreed upon in the FWA were inadequate to bind the SPV for performing their obligations. This flaw in the agreement enabled SPV to unjustifiably delay the implementation of the project.</p> <p>Due to non-incorporation of penalty clause for the default by Tecom in achieving the Closing date in the FWA, GoK was unable to take any legal action against Tecom. Audit has further analysed the various reasons and impact of the delays in the following paragraphs.</p>	
17.	6.8.1	<p><b>Delay in providing minimum infrastructure</b></p> <p>As per the FWA, steps for providing minimum infrastructure by GoK were to be started within 15 days of signing the FWA and were to be completed within six months [Article 7.1.1 (b)]. Since the FWA was signed on 13 May 2007 the work was to be started on 28 May 2007 and should have been completed by 12 November 2007. While the work was to be completed by GoK the requirements were to be intimated by SPV. GoK agreed to this without ensuring counter obligations on the part of SPV/Tecom and without considering the implications of the stipulation.</p> <p>GoK was to supply 10 MW of power to the SPV. Audit noticed that as SPV had not forwarded its energy requirement plan to KSEB or KEPIP, GoK</p>	<p>Concept Master Plan was presented to the Board of Directors of SmartCity in 2013, and Board approved the same. Master plan was prepared as a Walk to Work Township with IT Buildings concentrated mainly in Land A and Land B &amp; Land C were proposed for supporting amenities like residential buildings and other commercial facilities. Immediately on approval of Master Plan the site activities commenced in September 2013 itself. Infrastructure included a bridge for accessing the Land A (which was lying opposite to Infopark from the PWD road without an access due to separation by Edachira Thodu), 7 KM of 4 lane road with necessary trenches and drains, power distribution system, 2 no's of 33 KV Substations at Land A &amp; Land B, Construction of 3 MLD capacity water storage tanks, Water Treatment Plant, Landscaping etc.</p>

Sl.No	Para	Recommendation	Action taken by the Government
		<p>could not take any step to provide power connection. As per Article 1.1 of the FWA, one MLD water was to be supplied to Smart City from KEPIP. GoK had directed" KINFRA to provide one MLD of water from the Water Supply Scheme of the KEPIP to the periphery of the Smart City Project. The work was awarded to KITCO by KEPIP. Since SPV didn't finalise the route for pipeline, the work could not be taken up and KITCO was forced to short close the work after incurring an expenditure of Rs.6.20 lakh on purchase of pipes.</p> <p>Thus, though GoK initiated steps from January 2008 itself to provide the minimum infrastructure; it could not complete it due to lack of co-operation from SPV/Tecom. Due to the deficient agreement conditions GoK alone became responsible for the failure to provide minimum infrastructure and SPV/Tecom was absolved from penal action in spite of the non-co-operation on their part.</p>	
18.	6.8.2	<p><b>Continuous liability of GoK under the FWA</b></p> <p>Audit analysis of the FWA also revealed that in addition to completion of "minimum infrastructure" further obligations were imposed on GoK under the FWA. They were:</p> <ul style="list-style-type: none"> <li>• GoK has to continue the development of infrastructure commensurate with the requirement of Development Plan in such a manner that the required amount of power and water supply are made available at the periphery of Smart City when the facilities</li> </ul>	<p>It is only a normal duty of Government of Kerala to assist a company coming forward to invest in the state which will generate employment opportunities. These obligations will not affect the closing date.</p>

Sl.No	Para	Recommendation	Action taken by the Government
		<p>built by SPV are ready to draw on the said utilities (Article 6.2).</p> <ul style="list-style-type: none"> <li>• In addition to this, GoK has to complete acquisition of land for the new four lane road connecting the sea-port — airport and complete the road within two years(Article 6.3).</li> <li>• Assist (Article 6.5) the SPV in:               <ul style="list-style-type: none"> <li>➤ completion of fencing at the site.</li> <li>➤ obtaining a permanent source of water supply.</li> <li>➤ obtaining relevant approvals and permissions necessary for the construction of the linkages between different parcels of land to make them inter linked.</li> <li>➤ obtaining relevant permission to construct and operate a power generation system and</li> <li>➤ obtaining fast track approval for all licenses, permits and registrations required to establish requisite hospitality facilities of international standards within Smart City as per development plan.</li> </ul> </li> <li>• Further, GoK has to ensure supply of adequate power to SPV without disruption and construct, develop and maintain adequate link roads to the airport — seaport road as per NH standards (Article 6.5).</li> </ul> <p>As seen from the above, various provisions in the FWA were imposing responsibility on Gok and the responsibility of SPV/Tecom was specifically limited to development of infrastructure within the notified SEZ area. These clauses were used by the project</p>	

Sl.No	Para	Recommendation	Action taken by the Government
		<p>developers (SPV/Tecom) in their favour by prolonging the implementation of the project by not even providing minimum infrastructure like substation and construction of water tank within the project area.</p>	
19.	6.8.3	<p><b>Responsibility of GoK with regard to Parcel II of land.</b></p> <ul style="list-style-type: none"> <li>• Diversion of PWD road presently going through the middle of the land proposed for Smart City project in second parcel of land of 100.65 acres. Even though the decision to divert the PWD road was taken by the Government during November 2008, the land was identified only during March 2012 i.e., after a delay of around three and half years. But till date (March 2013) no physical transfer of land has taken place.</li> <li>• Shifting and re-construction of KSEB installations within 100.65 acres. For the re-location/shifting of KSEB installations (sedimentation, tank, pumping station, filter house, four families living in 19 Cents of land), GoK had released Rs.one crore in April 2009 and Rs.50.50 lakh in April 2013 towards the share of Smart City. In reply to an enquiry regarding delay on shifting of utilities, Office of the Member (D&amp;GE), KSEB, Thiruvananthapuram had stated (4 July 2013) that the shifting could be started only after getting GO for mutual exchange of land as</li> </ul>	<p>Smart City has informed that ROW alignment presented by PWD does not have co-ordinates or reference points so as to align with Smart City land in order to assess the additional requirement of land over and above the land transferred by Smart City, Kochi in exchange of the existing PWD road. Therefore status quo continues. They have also put forward 6 condition for further co-operating with the diversion of the PWD road. PWD has submitted a project report on the diversion of road to District Collector, Ernakulam and Infopark. The District Collector has proposed to complete re-alignment in two phases. 1<sup>st</sup> phase till Infopark Phase II and the remaining stretch of road in the next phase.</p>

Sl.No	Para	Recommendation	Action taken by the Government
		<p>suggested by District Collector, Ernakulam for which a decision was pending with Power department. GOK. Further the proposed land to be transferred to KSEB for relocating the installation has been identified, but the same has not been swapped with the land of SPV so far (November 2013).</p> <ul style="list-style-type: none"> <li>• Demolition and shifting of installation and air monitoring station to outside the project area.</li> <li>• Establishing contiguity between two parcels of land by way of construction of bridge</li> </ul> <p>In response to the above observation, GoK stated that the closing date had already been achieved by 1 March 2011 the project would be completed by 2021. Though the closing date is stated to be achieved by 1 March 2011, the same had not been achieved as the minimum infrastructure remains to be provided. The remarks of the department are thus not tenable.</p>	
20.	6.8.4	<p><b>Non-adherence to Development Plan</b></p> <p>As per the Development Plan in the FWA, the SPV has to complete the project within a period of 10 years by constructing 8.8 million sq.ft. of built up space so as to generate 90,000 jobs. However, the 10 year period starts only with the "attainment of the Closing date" as defined in the FWA ("Closing date" analysed in detail in para 6.9).</p> <p>In this connection, Audit observed that -</p> <ul style="list-style-type: none"> <li>• The closing date as defined in the FWA was not</li> </ul>	<p>Smart City, Kochi has constructed a building having a total built up area of 6.5 lakhs sq.ft which is currently occupied by 32 IT/ITeS companies. More than 3,500 employees are employed by these companies. Additionally Smart City, Kochi has entered into development agreements with 6 co-developers for developing IT/ITeS, commercial and institutional projects. The project also has a K to 12+ school operated by GEMS Education International.</p>

Sl.No	Para	Recommendation	Action taken by the Government
		<p>achieved so far (March 2014).</p> <ul style="list-style-type: none"> <li>• Even if the closing date is attained in 2014, the SPV will have a permissible period of 10 more years to complete the project. Thus the project is likely to be completed only after 2025 and GoK cannot enforce SPV to expedite the implementation of the Project.</li> </ul> <p>The physical progress achieved during this period (2007 to 2014) is limited to:</p> <ul style="list-style-type: none"> <li>• Construction of a 10,900 sq.ft pavilion (2012) for the office and barbed fencing of the leasehold land.</li> <li>• Appointment of a Project Manager (Synergy Bangalore) and designer B+H Architects (Toronto) to design the first phase building. Design of the building of about six lakh sq.ft. has been completed.</li> </ul> <p>The progress achieved so far (March 2014) does not correspond with the schedule fixed for completion as per Development Plan. Thus, the project expected to deliver much to IT/ITeS industry remained standstill without any precise time schedule for commencement.</p>	
21.	6.9	<p><b>Other deficiencies in Frame Work Agreement</b></p> <p>Other deficiencies noticed during the scrutiny of the FWA are mentioned in succeeding paragraphs-</p>	
22.	6.9.1	<p><b>Deficiencies in legal opinion</b></p> <p>The Law department of GoK approved the draft</p>	<p>The draft agreement was vetted by the Law Secretary before sending to Tecom by Chief Secretary. The term "best efforts" was included at the time of signing FWA after</p>

Sl.No	Para	Recommendation	Action taken by the Government
		<p>FWA on 27 February 2006 with comments regarding "events of force majeure" and venue of arbitration only. The vital aspects regarding "Closing date", low one time lease premium, period of lease, 'best efforts' to create 90,000 jobs, the clause in the FWA that the GoK shall not make any efforts that diminishes the value of Smart City, adequate representation of Government in BoD, transfer of 246 acres of land without adequate cost etc. were not considered by Law department even though these aspects were the corner stones in the implementation of the project. The agreement was referred (February 2010) to the Advocate General by GoK to seek his advice on certain clauses in the agreement. It was observed by him that the clauses pertaining to closing date, and 12 per cent free hold rights were deficient and required re-consideration. He also opined that Gok had not taken care to specify the consequences of failure on part of Tecom while Tecom had taken care to incorporate such a clause on failure of GoK. Thus the vetting by the Law department was not comprehensive. It was also noticed by audit that the FWA was modified after vetting by Law department (Ref. Para 6.10.3). The IT department replied (January 2014) that Government has obtained necessary legal opinion and framed the FWA. The remark was not tenable as specific opinion on Closing Date, implication of 12 per cent free hold rights and 'best efforts' etc. were not obtained from Law department.</p>	<p>the approval of Council of Ministers but later ratified by the Council. Before ratifying the file was seen by Law Secretary and no opinion was marked by him on that.</p>

Sl.No	Para	Recommendation	Action taken by the Government																				
23.	6.9.2	<p><b>Dilution of agreement conditions</b></p> <p>The primary objective of the State in the project was generation of employment opportunities. Section 5 of Special Economic Zone Act, 2005 (Central Act) stipulates that the Central Government while notifying any area as SEZ should be guided, among other things, by requirement of creation of employment opportunities.</p> <p>Audit scrutiny revealed that Government may not be able to ensure the much proclaimed employment generation of 90,000 jobs as the terms and conditions as well as liability of SPV was diluted in the FWA vis-a-vis MoU as detailed below:-</p> <table border="1" data-bbox="342 861 1183 1500"> <thead> <tr> <th data-bbox="342 861 431 941">Sl. No</th> <th data-bbox="431 861 685 941">Subject</th> <th data-bbox="685 861 940 941">MoU</th> <th data-bbox="940 861 1183 941">FWA</th> </tr> </thead> <tbody> <tr> <td data-bbox="342 941 431 997">1</td> <td data-bbox="431 941 685 997">Reference</td> <td data-bbox="685 941 940 997">Article 1.4</td> <td data-bbox="940 941 1183 997">Article 9</td> </tr> <tr> <td data-bbox="342 997 431 1236">2</td> <td data-bbox="431 997 685 1236">Commitment</td> <td data-bbox="685 997 940 1236">DIC undertakes that SPV _ shall together create 33,300 direct jobs in the Smart City in phases as follows</td> <td data-bbox="940 997 1183 1236">"Tecom shall make best efforts to generate at least 90,000 jobs in 10 years from closing date"</td> </tr> <tr> <td data-bbox="342 1236 431 1348">3</td> <td data-bbox="431 1236 685 1348">Phases fixed to achieve objectives</td> <td data-bbox="685 1236 940 1348">Three phases - five years, seven and 10 years</td> <td data-bbox="940 1236 1183 1348">Phases not provided</td> </tr> <tr> <td data-bbox="342 1348 431 1500">4</td> <td data-bbox="431 1348 685 1500">Penalty for shortfall</td> <td data-bbox="685 1348 940 1500">The SPV shall pay to the GoK a penalty calculated at the rate of</td> <td data-bbox="940 1348 1183 1500">Not provided</td> </tr> </tbody> </table>	Sl. No	Subject	MoU	FWA	1	Reference	Article 1.4	Article 9	2	Commitment	DIC undertakes that SPV _ shall together create 33,300 direct jobs in the Smart City in phases as follows	"Tecom shall make best efforts to generate at least 90,000 jobs in 10 years from closing date"	3	Phases fixed to achieve objectives	Three phases - five years, seven and 10 years	Phases not provided	4	Penalty for shortfall	The SPV shall pay to the GoK a penalty calculated at the rate of	Not provided	<p>The term "best efforts" in article 9.3 will in no way allow Tecom to escape from its responsibilities. In para 7.2.2 in FWA it is clearly mentioned that if Tecom (and, or its Affiliates)/SPV and clients fails to create either 90,000 jobs or 8.8 million sq.ft built up space out of which at least 6.21 million sq.ft will be specifically for IT/ITeS/allied services within 10 years from the closing date , Government of Kerala shall issue notice to SPV and Tecom in this behalf and the default continues for minimum period of 6 months from the date of notice, GoK shall at its option have recourse to anyone or more of the remedies as in FWA.</p>
Sl. No	Subject	MoU	FWA																				
1	Reference	Article 1.4	Article 9																				
2	Commitment	DIC undertakes that SPV _ shall together create 33,300 direct jobs in the Smart City in phases as follows	"Tecom shall make best efforts to generate at least 90,000 jobs in 10 years from closing date"																				
3	Phases fixed to achieve objectives	Three phases - five years, seven and 10 years	Phases not provided																				
4	Penalty for shortfall	The SPV shall pay to the GoK a penalty calculated at the rate of	Not provided																				

Sl.No	Para	Recommendation	Action taken by the Government
		<p>Rs.6,000 per job as applied to shortfall in targets at the end of five, seven and 10 years</p>	
		<p>In this connection Audit observed the following:</p> <ul style="list-style-type: none"> <li>• The words "make best efforts to" in the FWA absolved the Tecom (SPV) from its obligation to provide employment and slackened their statutory liability.</li> <li>• The phases of generation of employment, number of direct and indirect employment, penalty for not achieving the target, etc., were not specified in the agreement.</li> </ul> <p>The department replied that the use of the term 'best efforts' would no way allow Tecom to escape from its responsibilities. The remarks of the department are not tenable as a dilution had been made to the original clause. Moreover, no legal opinion was sought for before making the modification 'make best efforts to' ascertain the impact of insertion.</p> <p>Audit also noticed that the words "make best efforts to" was inserted subsequently by hand in the original typed FWA which goes against the MoU provisions. There was no record to prove that this modification was examined by Law department.</p> <p>A scanned copy of a part of the corrected page is shown in the report.</p>	

Sl.No	Para	Recommendation	Action taken by the Government
24.	6.9.3	<p><b>Clauses favourable to Tecom on default</b></p> <p>There were heavy commitments on Government for attaining closing date requirements, assisting in obtaining SEZ status, assurance regarding water, power, four lane road, making available exemptions, concessions etc. for IT companies working in the project area for the successful functioning of the project. However, similar condition insisting the developer to commence and complete the built up space and create employment generation were not provided for in the agreement.</p> <p>As per the FWA, any failure on the part of GoK to fulfill its commitment (Article 7.1.1) would constitute "GoK closing default" or "GoK land default". Similarly any failure to create 90,000 jobs or construct 8.8 million sq.ft. built up space would constitute a default on the part of Tecom.</p> <p>In case of default, any party could take over the project completely by paying for the share held by the other party. However, these conditions favored Tecom as the possibility of taking over the project by GoK could arise only after ten years of closing date. Also in the event of default by GoK, Tecom and/or its permitted affiliates were not to be subjected to any penal consequences for non-commencement and non-completion of construction of IT/ITeS buildings as per Development Plan. The department did not give any specific reply to the point raised and stated that all steps would be taken to accelerate the pace of the project.</p>	<p>It is a normal function of the State Government to assist any industry coming to the state to get the required clearances from Central Government or any other authorities. The other closing date requirements are also not a burden on the State Government. The commitment of Government of Kerala have almost been over. As mentioned in audit para 7.2.1 to 7.2.2 in FWA, event of default on the part of Tecom is specified.</p>

Sl.No	Para	Recommendation	Action taken by the Government
25.	6.9.4	<p><b>Non-provision of penalty, Security Deposit and Insurance in the FWA.</b></p> <p>Provisions for penalty, security deposit and insurance are kept in projects to guard against loss due to defaults. However in the FWA, there was no provision for penalty, security and insurance for ensuring the timely construction of infrastructure/built up space. Thus, if the developer were to fail to adhere to the timeframe, there was no option to levy penalty or recover costs from the Security Deposit and risk of any act or omission of the developer.</p>	<p>In para 7.2.2 in FWA it is clearly mentioned that if Tecom (and, or its Affiliates)/SPV and clients fails to create either 90,000 jobs or 8.8 million sq.ft built up space out of which at least 6.21 million sq.ft will be specifically for IT/ITeS/ allied services within 10 years from the closing date, Government of Kerala shall issue notice to SPV and Tecom in this behalf and the default continues for minimum period of 6 months from the date of notice, GoK shall at its option have recourse to anyone or more of the remedies as in FWA.</p>
26.	6.9.5	<p><b>Absence of Independent auditors, engineers and valuers.</b></p> <p>The FWA should normally provide for appointment of Independent Auditors and Independent Engineers to enable them to monitor the project activities and act on their behalf to evaluate and co-ordinate construction, technical and commercial activities. These provisions were not considered while framing the FWA. Neither the GoK nor the SPV could effectively monitor the delays in achievement of milestones in the absence of appointment of IA/IE.</p> <p>In response to the above, Government replied that the affairs of SPV are managed by a Board and the decision regarding the project was taken by the Council of Ministers and IT Secretary. It was also stated that Audit and Executive committees, statutory and internal auditors were appointed in</p>	<p>Audit Committee includes three BoD members (GoK-IT Secretary and two members from Dubai). This committee meets once in half yearly / quarterly to discuss and approve the financial reports and other financial matters. Internal Audit reports are being prepared quarterly and Independent Auditors (Statutory Auditors) report are prepared annually. These reports are being placed before the audit committee and approved. The Minutes of Audit Committee Meetings are attached (Annexure: 2).</p>

Sl.No	Para	Recommendation	Action taken by the Government
		<p>addition to a qualified house team of engineers. The remark is not tenable as it does not address the issue of independent auditors and Engineers as the details of constitution of any of the committee were not produced to Audit for verification. The minutes of Audit Committee, Reports of independent auditors and internal auditors were also not made available to verification.</p>	
27.	6.10	<p><b>Financial impact on Government excheque</b></p> <p>GoK had deposited Rs.87.28 crore in five instalments between April 2008 and September 2013 with Infopark for meeting the expenditure in connection with land acquisition for parcel I. As per details furnished by Infopark, it had incurred Rs.86.09 crore during the period between April 2006 and September 2013 for meeting land cost, administrative expenses and interest on KSIDC loan.</p> <p>In addition to the above expenditure, GoK had to pay/bear indirect/implicit cost of Rs.43.53 crore as mentioned in para 6.6.2 on additional liability for land in Parcel II.</p> <p>Audit noticed that apart from the above Rs.129.62 crore for acquisition and transfer of land in Parcel I and II, actual cost to be incurred on the following has not yet been ascertained:-</p> <ul style="list-style-type: none"> <li>• Cost of 13.94 acres of Government land (Parcel III).</li> <li>• Future liability by way of compensation arising out of land already acquired.</li> </ul>	<p>Construction of four lane road from seaport airport road to Smart city was meant as a major access into the IT Corridor comprising of Smart City and Infoparks Kerala in addition to serving the land property belonging to KSIDC and KINFRA Industrial parks. The area was otherwise lying as swamps devoid of any progress in the past few decades. This four lane road is also serving a number of other private lands and has paved way for a huge growth in Real value in the area since then thus raising the living standards of the general public there who could not otherwise make a good utility for the land they had so far. Also we can see the upcoming of a couple of well-functioning prestigious educational institutions in this area all of which have happened upon this access road made form Sea port Airport connectivity Road to Infoparks Kerala which is also made to serve Smart City.</p> <p>For fixing the price for the land the value provided by the District Collector, Ernakulam taking into consideration, the solatium and interest payable was the figure used for negotiating the price. It is a conscious</p>

Sl.No	Para	Recommendation	Action taken by the Government
		<ul style="list-style-type: none"> <li>• Construction of four lane road from seaport airport road to Smart City.</li> <li>• Cost of acquisition of land for the above road.</li> <li>• Cost for laying electricity line to the periphery of Smart City from the existing substation of KEPIP.</li> </ul> <p>As against the above financial commitment, GoK received Rs.104 crore from the SPV as one time lease premium as full and final amount for the 246 acres of land. Later GoK paid Rs.31.20 crore in cash to acquire 16 per cent share in the SPV in which GoK has no effective control.</p> <p>Had the transfer value of the land been fixed considering the market value prevailing in the State, Government could have fetched more revenue. Due to failure to monetise the realistic/market value of land which was transferred on lease for 90 years, Government suffered a huge loss of revenue which was beneficial to the SPV.</p>	<p>decision of Government of Kerala approved by the Council of Ministers to subsidize the cost, with a view to facilitate the setting up of the project. Moreover the land was totally raw land and undeveloped and devoid of any internal roads or other infrastructure networks like power, water or communication facilities.</p>
28.	6.11	<b>Other findings</b>	
29.	6.11.1	<p><b>Board of Directors</b></p> <p>As per the FWA, the BoD at any time comprises of a maximum of 10 Directors unless otherwise provided in its Articles (3.1.1). Gok is entitled to nominate two Directors on the BoD as long as the GoK holds not less than nine per cent of the share capital of the SPV. The Chairman is to be nominated by GoK from among its two Directors and has one</p>	<p>Article 3.1.2 of Framework Agreement enables the enhancement of share capital on behalf of Government of Kerala to 26% to which will enable Government of Kerala to nominate 3 Directors in the Board of Directors.</p>

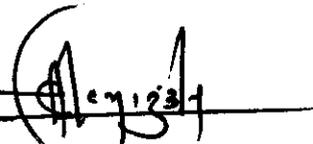
Sl.No	Para	Recommendation	Action taken by the Government
		<p>vote like any other Director. The GoK nominees in BoD shall be an officer not below the rank of a Special Secretary to Government or a Minister. The Government (November 2013) nominees were Minister for Industries (Chairman) and Principal Secretary to Government, IT department (Director).</p> <p>All decisions of BoD shall be by a simple majority of the Directors present and voting. The quorum shall be five members present and voting of which at least three shall be nominees of Tecom and at least one shall be the nominee of GoK. Thus the clauses concerning quorum of Board meeting gave absolute control over decision making to Tecom.</p> <p>The Chief Minister shall be the chief patron of Smart City. This title is only an ornamental one with no control over the affairs of the company.</p>	
30.	6.11.2	<p><b>Stamp Duty exemption for free hold land</b></p> <p>As per guidelines regarding transactions related to SEZ on Stamp Duty exemptions, the upfront exemption of Stamp Duty sanctioned by State Government was subject to final settlement of the SEZ or the Developer was to pay the Stamp Duty and refund the same after the formal SEZ notification is issued.</p> <p>GoK granted stamp duty exemption to whole area of 246 acres while registering lease deed (February 2011). However, the third parcel of 13.94 acre being not contiguous was not eligible for SEZ status and it was excluded from the revised application for SEZ on 11 January 2013 (as</p>	<p>Smart City was given exemption from stamp duty and registration fee for that portion of land which has been notified as SEZ as per the advice of Law Department and Finance Department and as per the decision of Council of Ministers.</p>

Sl.No	Para	Recommendation	Action taken by the Government
		<p>explained in para 6.6.5). Thus the proportionate amount of lease premium of Rs.5.89 crore for 13.94 acres was thus not eligible for stamp duty exemption. Hence, granting of exemption of Rs.53 lakh (approximately) lacked justification and tantamounted to extension of undue benefits to SPV.</p> <p>Government has not initiated any steps to realise the unintended Stamp Duty exemption.</p>	
31.	6.11.3	<p><b>Failure to produce records to audit</b></p> <p>The crucial records such as minutes of the meetings held from July to October 2004 between DIC and GoK, proposal from DIC, (13 December 2004) and other correspondence were not provided to audit, despite reminders and several round of discussions with IT Secretary.</p> <p>Replies to certain queries raised by audit are yet to be received from the IT department (GoK). Audit intended to scrutinise the Agenda Notes and Board Minutes of the SPV. However IT Secretary refused to provide the records to audit violating the provisions contained in Article 59 of Kerala Financial Code Vol. I.</p> <p>In the absence of these records, audit was not in a position to comment whether Tecom was the best available option and the selection had been made in a transparent manner. The reluctance to provide records raises serious concerns about the transparency of the process. This doubt has been strengthened by the drafting of the terms of the FWA</p>	<p>No meetings are seen held from July to October 2004 between DIC and Government of Kerala. The proposal from DIC is hereby submitted. (Annexure :1)</p>

Sl.No	Para	Recommendation	Action taken by the Government
		<p>imposing heavy responsibility on GoK and incorporating many terms to the advantage of Tecom.</p> <p>To understand the basis for fixing the land area as 246 acres and the one time lease premium as Rs.104 crore with its justification, audit called for the files. IT department did not produce the records relating to method of valuation of the project, records relating to extent of land required, fixation of lease premium, period of lease etc. This reluctance to hand over the files further pointed towards the lack of transparency and raises strong concerns on an attempt to extend undue favour to the SPV. The department stated that all files and documents were submitted to audit. The reply is incorrect as the initial records pertaining to the minutes of various discussions held between the representatives of GoK and Tecom, project evaluation, DPR submitted by Tecom, fixation of lease premium etc. were not made available to audit.</p>	
32.	6.12	<p><b>Conclusion</b></p> <p>There was undue favour given to the SPV at almost every stage of the project starting from the selection of partners without any expression of interest. A low one time lease premium was fixed without considering the market value. Excess land was given. Unlike the IT parks established by Government, the lessor was granted freehold rights over 12 per cent of the area of land at any point of time. The agreement conditions in respect of creation of 90,000 jobs were diluted in the agreement and</p>	<p>Undue favour was not given to the SPV. The incentives given to the SPV was at the good interest for setting up of a world class IT parks in Kochi. All decisions regarding the framing of agreements were taken with the concurrence of the Law Department and Finance Department and also with the approval of the Council of Ministers.</p>

Sl.No	Para	Recommendation	Action taken by the Government
		<p>made incapable of being translated into enforceable targets/deliverables. The Government nominee has only a minor role in the Board of Directors.</p> <p>Agreement conditions in the FWA were strongly tilted in favour of Tecom and against GoK. While legal action was possible against GoK for defaults in providing minimum infrastructure, it was not possible against Tecom for lack of co-operation in this regard. This led to indifferent approach of SPV which did not identify suitable locations inside the project area for the installation of sub-station, construction of water tank for storing one MLD water (one million litre per day) etc., as required in the FWA, delaying Government's efforts in providing minimum infrastructure.</p> <p>Neither the Government nor the SPV is able to spell out any precise timeframe within which the project can achieve the objectives. Even after seven years from signing the agreement, construction of 8.8 million sq.ft. built up space and creation of 90,000 jobs are far from sight.</p>	
33.	6.13	<p><b>Recommendations</b></p> <p>Audit recommends that:</p> <ul style="list-style-type: none"> <li>• Projects and schemes of mega size should be planned, designed and executed in an open and transparent manner, safeguarding the financial and socio-economic interests of the State;</li> <li>• When prime industrial land is provided to</li> </ul>	<p>Frame Work Agreement between Government of Kerala, Infoparks Kerala and Tecom Investment FZ-LLC was executed in May 2007. First construction activities included construction of first IT Building of Smart City, Kochi admeasuring 6.5 lakhs sq.ft along with necessary infrastructure for Land A &amp; Land B spread over 30 acres of land commenced in October 2013. Infrastructure included a bridge for accessing the Land A (which was lying opposite</p>

Sl.No	Para	Recommendation	Action taken by the Government
		<p>boost economy, GoK should ensure that the land provided is only as per requirement;</p> <ul style="list-style-type: none"> <li>• Government should include clauses in agreements to ensure that the land is not used for real estate development purposes by private developers; and</li> <li>• Government should prescribe a monitoring mechanism to ensure that physical progress goes in tandem with the periodical milestones fixed. A high power body may be constituted for a continuous monitoring mechanism which may address the hindrances in the achievements of the milestones so that undue delay could be avoided and desired results achieved.</li> </ul>	<p>to Infopark from the PWD road without an access due to separation by Edachira Thodu), 7 KM of 4 lane road with necessary trenches and drains, power distribution system, 2 no's of 33 KV Substations at Land A &amp; Land B, Construction of 3 MLD capacity water storage tanks, Water Treatment Plant, Landscaping etc. Construction of first IT Building of 6.5 lakhs sqft with a total employment potential of 5000 was completed and inaugurated on February 2016. As on date, the IT spaces in the building is leased out 100% and 34 IT Companies are functioning from the building. Along with inauguration of first IT Building, the second phase development of IT Buildings to be developed by the Co-Developers was also launched in February 2016. It is expected that the second phase IT Buildings coming up in phases will be available to be offered to IT companies from March 2021.</p>

  
 V. ...  
 Joint Secretary  
 Electronics & Information Technology  
 Government Secretariat, ...

83  
**Annexure 1**

GOVERNMENT of Dubai  
Dubai Technology and Media Free Zone Authority



**DUBAI**  
INTERNET  
CITY

**DUBAI INTERNET CITY PROPOSAL FOR  
SMART CITY, COCHIN**

**SUBMITTED TO  
GOVERNMENT OF KERALA**

**DECEMBER 2004**

Government of Dubai  
Dubai Technology and Media Free Zone Authority






---

INDEX

1.	Introduction	5
2.	Dubai Internet City- Profile	5
3.	Creation of Smart City Cochin by DIC- Objective	6
4.	DIC- Value Proposition to Smart City	7
4.1	Cluster Creation	7
4.2	Creating a Knowledge Community	7
4.3	Technology	7
4.4	Networking Opportunities for Smart City Business Partners	8
4.5	Creation of the One-Stop Shop for Business Partners	8
4.6	Creation of an International Window for Local Companies	9
4.7	Leveraging Government-to-Government Relationships	9
4.8	Proximity to Other Knowledge-Industry Clusters	10
5	Smart City Real- Estate Infrastructure Development	10
5.1	Phase 1 Development	11



5.2	Phase 2 Development	12
5.3	Phase 3 Development	12
5.4	Phase 4 Development	12
5.5	Additional Phased Development	12
6	Smart City Land Infrastructure Development	13
7	Smart City Technology Infrastructure	13
7.1	Telephony	14
7.2	Networking	15
7.3	Internet	15
8	Smart City Commercial and Business Development	16
8.1	Smart City Project Management Office	16
8.2	Proposed Management and Legal Structure	17
8.3	Smart City Organisation Structure	18
8.4	Smart City Marketing & Sales	19
9	Merging Info Park with Smart City	19
10	Future Developments	20
11	Challenges for Smart City	20
12	Wish List	22
12.1	Commitment of Government of Kerala	22



12.2	Benefits from Government	22
12.3	Local Bodies	23
12.4	I.T. Incentives	23
12.5	Infrastructure	23
12.6	Labour	24
12.7	Civic Amenities	24
12.8	Power	24
12.9	Land	25
12.10	Infopark	25
12.11	Land Specifications	26
12.12	Master Plan	26
12.13	Smart City Road	26
12.14	Other Roads	27
12.15	General	27
13.	Next Steps	28
13.1	Letter of Interest	28
13.2	Proposal & Wish List	28
13.3	MOU	28
13.4.	Formation of Indian Company	28
13.5	Registration of Land	28
13.6	Business Plan	28
13.7	Appointment of Consultants	29
13.8	Project Office in Cochin	29



---

14. Conclusion	29
Appendix	30
Summary of Phases One to Three	31
Suggested Major Components	32



1 Introduction

Dubai Internet City's (DIC) strategy is to become a preferred business campus provider to IT Companies Internationally and to provide ideal environment and infrastructure that contributes to the development of IT/ITES in these markets. In view of this DIC has undertaken evaluation of many locations worldwide. We had visited Info Park, Cochin in July and November, 2004 in this regard. We have since gained valuable insights into the potential and have devised a preliminary plan for developing a leading IT/ITES location in Cochin. Subject to the acceptance of this proposal, DIC will also have the opportunity to extend this value proposition to the development of R& D and Biotech within the park at Cochin.

Dubai Internet City- Profile

Over the past four years, Dubai Internet City has been working closely with multinational corporations to create the ideal conditions for information and communications technology (ICT) companies to do business in fast-growing emerging markets in the Middle East.

The first product of this partnership was a million square feet. Two years ago, in the heart of Dubai, a new enterprise headquarters campus. This campus provided ICT companies with the ideal facilities and infrastructure in the region.

Based on extensive inputs from the global and regional ICT community, we addressed all the factors that help boost competitive advantage in operating regionally from Dubai Internet City. In fact, Dubai Internet City's value proposition revolves around its understanding of the ideal macro-economic environment for ICT companies to do business optimally.

Thanks to our business partners (customers), the leading-edge IT companies, Dubai Internet City has achieved tremendous success within a short span of four years. It has today evolved into strategic springboard for global companies to target the Middle East Region.

DIC, today, has grown into a vibrant international community of over 650 companies. Several global companies, including Microsoft, Oracle, HP, IBM, Dell, Siemens, Canon, Logica, Sun Microsystems, Philips, Computer Associates, Sony Ericsson and Cisco have chosen to establish their regional headquarters in Dubai Internet City.



Over the past four years, Dubai Internet City has been working closely with multinational corporations to create the ideal conditions for information and communications technology (ICT) companies to do business in fast-growing emerging markets in the Middle East. Following this success, DIC has extended the concept to successful business parks in Media & Education, through our Dubai Media City and Knowledge Village initiatives. In facilitating this development DIC has also invested and built several subsidiaries that provide infrastructure in telecommunication, Data centers, ISP's, Facilities Management, Teleport and District Cooling Services.



Dubai Internet City Campus

1. Creation of Smart City Cochin by DIC- Objective

DIC in partnership with Government of Kerala seeks to create a center of excellence for the Technology Companies in Cochin. This will serve to attract global majors as well as Indian businesses. This will be one of the largest IT parks of India and its overall positive impact on the Economy will be formidable. In our view it would emerge to be one of



the leading Initiatives in the country with strong contribution to job creation and will serve to drive up all around economic development.

4. DIC Value Proposition to Smart City

DIC's presence in Cochin and development of the hi-tech technology park will have a major impact on making Cochin the "City of Choice" i.e. one of the major IT/ITES destination in India. The other key benefits that DIC will contribute to this initiative include:

4.1 Cluster Creation

DIC will ensure that Smart City evolves into a dynamic international community of IT/ITES companies. The global IT giants will be established in Smart City. The cluster will have a micro-economy of its own. Companies from the entire IT industry spectrum will be represented here. The key sectors will be Software Development, Business Services, Web Based & e-Commerce, Consultancy, Sales & Marketing, IT manufacture and Back Office Operations. Additionally DIC will develop programmes for Smart City that that can be leveraged by the IT community to explore and expand channel and business development opportunities.

4.2 Creating a Knowledge Community

One of the key objectives of DIC will be to capitalize on the abundant and educated human resource talent that exists in and from Kerala today. By creating a center for technology anchored by some of the leading names in the industry, DIC ~~hope~~ to create a ~~knowledge community in the Smart City~~ which could be over ~~15,000 workers~~ in the ~~primary domain of development~~.

Not only will DIC be able to attract talent from within the state but the creation of Smart City will attract home-land talent back to the state of Kerala.

4.3 Technology

DIC has gained valuable expertise in developing technical infrastructure. As an Internet and Network Service provider in Telecommunication, DIC can add value to the Smart City Technology Platform. DIC will substantially reduce the operating cost for the Smart



---

Counter for Business Partners to file their returns for different departments

These add convenience, flexibility and assist in making business models successful over the long term. Businesses can reduce management time expended in non-core activities by their ease of availability.

#### **4.6 Creation of an International Window for Local Companies**

Smart City will open an international window of opportunities for local companies through Dubai Internet City and its future Global Campuses. The brand association of local companies with DIC will assist them in creating windows of International opportunities. The Smart City Association will be part of DIC's ongoing international marketing activities. These include a busy calendar of road shows, international exhibitions and seminars. An exclusive office in Dubai Internet City- First steps will also be allocated for Smart City. This office in DIC will be equipped with the latest integrated high-end office solutions; Internet Connectivity, IP Telephony, and Network Printers straight to the desktop to support modern businesses in this rapidly developing age of technology. These offices will contain services to include

- Secretarial Services
- Visit / Residence Visa/Trade License (applicable to 1 year Occupants Only)
- Additional Fax/Modem Line/Analogue Line
- Business Catering
- Call Answering Services
- Pantry with unlimited refreshments
- Leisure & Entertainment Guide
- Voicemail

#### **4.7 Leveraging Government-to-Government Relationships**

Dubai's political neutrality and strong historical ties have enabled it to foster close relationships with many countries. Dubai will work closely with Kerala to tap complementarities and harness synergies in each other's ICT industries. These close bonds will give both parties opportunities to increase business and trade relationship even further.



#### 4.8 Proximity to Other Knowledge-Industry Clusters

Dubai Internet City exists close to **Dubai Media City**, a cluster for media companies and **Knowledge Village**, a cluster for knowledge providers including education and training companies. Dubai Media City provides an advanced infrastructure and supportive environment for media-related businesses to operate globally out of Dubai. Dubai Media City is a place where every kind of media business, specifically; Media and Marketing Services, Printing and Publishing, Music, Film, New Media, Leisure and Entertainment, Broadcasting and Information Agencies can operate with collective synergy and individual freedom. Knowledge Village provides an infrastructure and environment for a variety of organizations and individuals to create and disseminate knowledge. Knowledge Village is home to a variety of knowledge providers including e-Learning companies, educational institutions, R & D organizations, corporate training institutions, innovation organizations, science and technology institutes, certification and testing organizations and incubators. DIC will bring with it the experience of the media and knowledge clusters to further enhance the over all value proposition of Smart City.

Dubai Media City and Knowledge Village can add value to Smart City by adding educational and media components to the expansion of Smart City into a new Central Business District of Cochin.

#### 5 Smart City Real Estate Infrastructure Development

DIC will attempt to create a IT/ITES Technology Park with world-class infrastructure, technology and environment to enable local, regional and global companies to operate from Cochin.

We have rich expertise in this regard having set up from scratch a leading IT park in Dubai. Our well honed expertise and experience will be at the disposal of Cochin.

It is our vision to create a Smart City that will not only be a business park but will be a self-contained community with commercial, retail, residential, education, entertainment, and essential services components, thus creating a new Central Business District in Cochin.

As per our discussion DIC will require 1,000 Acres of land for development. The development will be phased to ensure optimum utilization and occupancy. A preliminary vision of the Smart City is detailed below. Needless to add that the final plans for the City can only be detailed after professional research, planning and design.



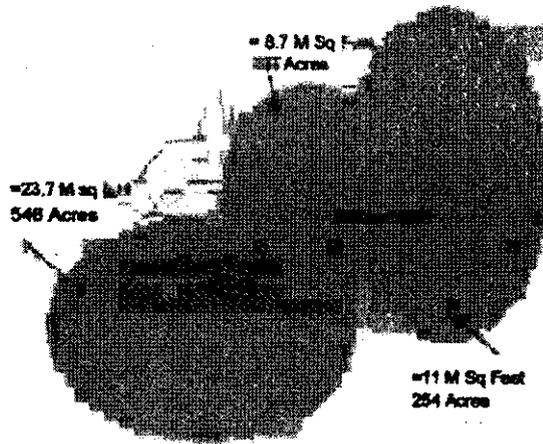
**1.1 Phase 1 Development**

DIC will develop a hi-tech Technology Park in the proposed Area. DIC will create world-class real estate; the first phase of the development will cover an area of 200 Acres. We may add that the envisaged mixed development with state-of art facilities will be the core of our proposition.

The key components of the first phase of development will be:

- Main Commercial Building- Head Office of DIC in Cochin
- Commercial Buildings for IT/ITES companies
- Business Center
- Call Center Building allowing for ITES buildings
- Sport & Recreational Center with Golf Club

The first phase of development will attract a wave of businesses some of whom no doubt will become "anchor" partners attracting others in turn.



Phased Development of Smart City



**5.2 Phase 2 Development**

The Smart City Phase 2 will cover additional 200 Acres. DIC will further evolve the Smart City Community to incorporate major residential developments. We understand well the crucial need to offer 'on-site' residential accommodation. As we are aware that knowledge workers need convenient residential space with proximity to their work environment therefore this component is a natural extension to the city. This phase of the development will possibly cover;

- Residential Villas
- Residential Apartments
- Additional Commercial Buildings as required

**5.3 Phase 3 Development**

In the Smart City Phase 3 additional 150 Acres will be covered to incorporate retail and entertainment components. In essence this phase will seek to institutionalize and expand the development into a bustling self contained community. The additional elements of Phase 3 could incorporate:

- Retail & Entertainment Center
- Conference Center

**5.4 Phase 4 Development**

Phase 4 will consist of about 500 Acres and will be used to convert Smart City into the Central Business district of Cochin. IT complementary sectors of Bio-tech, R&D, and Media could converge in this phase to evolve a major Bio-IT hub of India. The phase 4 would be scaled up on a need based approach.

**5.5 Additional Phased Development**

In addition to the proposed components the additional land will be leased and Smart City will accelerate its growth by forming alliances with prominent International Business Groups who can add value to the projects in terms of value added expertise in specific projects. The additional development will include educational, hospitality, medical,



entertainment, retail, and essential services. Hence again the growth of the development will be at a fast track progression. Smart City will be developed at a pace suited to ongoing infrastructural developments as well as external factors. These leased properties development could include:

- Multi-Disciplinary University
- IT colleges (2)
- Campus of major IT organisations
- Primary and secondary Schools
- Hospitals
- Hotels
- Commercial
- Mixed Developments

#### 6. Smart City Land Infrastructure Development

DIC will design and develop the proposed 1000 Acres of land and undertake the infrastructure development in the aforementioned phased manner. DIC will enhance on the existing beauty and landscape of the proposed land by creating high quality infrastructure and a unique environment. DIC will ensure development of land in phases to incorporate the following infrastructure in the land development:

- Road Network
- Street Lighting
- Water Supply
- Fire Fighting
- Sewage
- Landscaping
- Networking
- Electricity Services
- Storm Water Drainage
- Gate-ways & Check points

#### 7. Smart City Technology Infrastructure

Dubai Internet City (DIC) provides a Knowledge Economy Ecosystem designed to support the business development of Information and Communications Technology (ICT) companies. It is the Middle East's biggest



IT infrastructure and has one of the largest commercial Internet Protocol Telephony system in the world. DIC provides a scalable state-of-the-art technology platform for companies looking to provide cost effective Remote Services such as call center operations. It provides an environment that attracts most elements of the value chain for an ICT business. In addition, it has developed programs that can be leveraged by the ICT community to explore and expand channel and business development opportunities.

Smart City's technical infrastructure will be designed and built to world-class standards of capacity, reliability, cost and levels of service. Businesses operating from Smart City can expect high bandwidth, low-cost telecommunications infrastructure with redundant connections to primary backbone providers. Needless to add that these services can be provided, subject to Government of India regulations.

Smart Internet City will be providing its customers with the essential building blocks of any successful business in the new economy: state of the art facilities with cutting edge technology.

The best quality of service, flexibility, and cost effectiveness has always been the vision of Dubai Internet City in adopting and implementing its technology infrastructure to meet and exceed customer expectations in every service and solution delivered.

**7.1 Telephony**

Smart City's voice infrastructure will be built on IP Telephony. This technology allows for data, voice, and video to be transmitted over a single, IP based network infrastructure. By combining multiple types of traffic on a single network connection the customer will realize the following benefits:

- Dramatically reduce the cost of voice and data networks.
- Less network complexity within a seamless environment.
- One-stop shopping from a single service provider.
- Outsourcing network functions and focusing on core business.
- Having latest technology standards available at fingertips

Smart City may also consider building an exclusive Data Center. All buildings will be redundantly interconnected to the Data Center using fiber optic technology providing the highest levels of capacity based on Gigabit Ethernet. All voice traffic will be routed via Smart City's IP Network to a VoIP Gateway within the Data Center for conversion. This gateway is will be redundantly connected to local PSTN Networks providing high levels of availability.



**7.2 Networking**

The main task of the network is to offer Smart City customers a high performance communication platform for data and IP telephony. The system will be implemented using VLAN technology.

A virtual or logical LAN is a local area network with a definition that maps workstations on some other basis than geographic location (for example, by department, type of user, or primary application). The virtual LAN controller can change or add workstations and manage load balancing and bandwidth allocation more easily than with a physical picture of the LAN. Network management software keeps track of relating the virtual picture of the local area network with the actual physical picture.

This provides maximum flexibility in LAN configuration. VLANs can have almost any size to accommodate the needs of both small and large networks. VLANs are also used to separate customer's data networks and the IP telephony system from each other hence enhances quality of service. By utilizing VLAN technology, customers will realize the following benefits:

- No investment required for Infrastructure
- Reducing overall running costs by outsourcing maintenance of systems
- Rapid deployment of network
- Flexibility in physical and user reconfigurations.
- Maintaining the highest standards of technology without investment
- Outsourcing IT functions and focusing on core business.

**7.3 Internet**

The Internet plays a strategic role in any company's ability to survive and compete, and gaining a competitive advantage means staying on top of Internet advances and trends. Hence Smart City Internet services will be designed to enable companies to compete in the Internet Economy.

Services to be provided are:

- 2, 4, 8, 12 Mbps Internet Access
- Static IP addresses

The Internet backbone of Smart City will be redundantly connected to multiple network access points. These Network Access Point feature:

- Diverse and redundant routing options



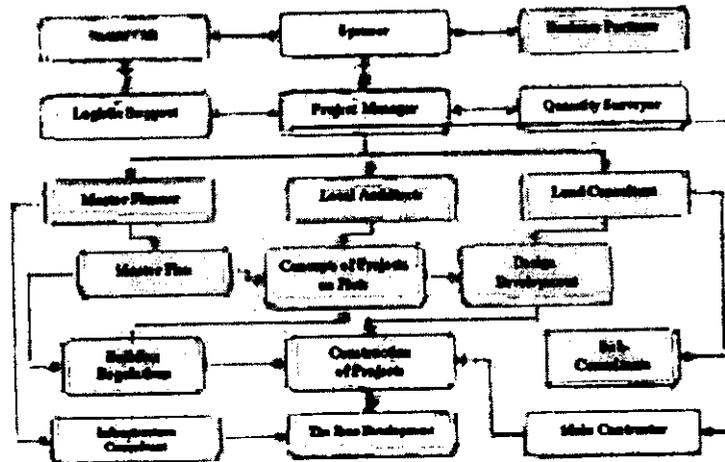
- Direct connection to NAP's in USA
- Quicker response times

**8. Smart City Commercial and Business Development**

In addition to building the Hard Infrastructure, DIC will also evolve the commercial landscape of Smart City. The Commercial Development of the City in the initial phases will include the following:

**8.1 Smart City Project Management Office**

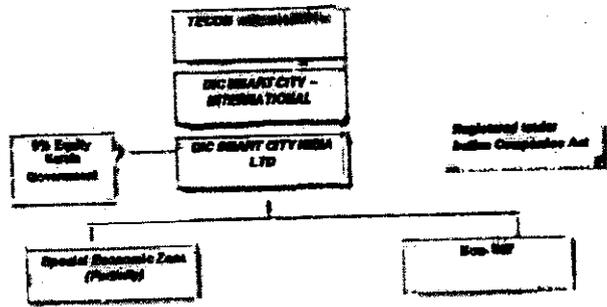
In the first phase of development of the Smart City, DIC will set up a project Management Office to co-ordinate the Master Planning, Design and Construction of the project. The broad plan of the design and construction project team is detailed below:





**8.2. Proposed Management and Legal Structure**

Proposed Legal/Management Structure for Smart City is represented below.



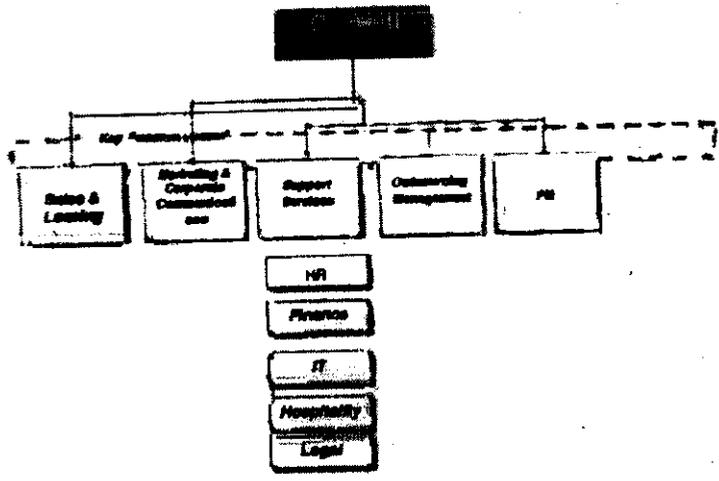
It is proposed that Technology and Media Free Zone will set up a DIC Smart City International. DIC Smart City India will be a subsidiary of the DIC Smart City International. We additionally suggest that Kerala Government take up a Stake of 9% in this venture. This will allow the Government to fully participate in making this vision a reality.

It is further suggested that DIC Smart City build two specialized zones, One SEZ and the other Non- SEZ. The IT companies under non SEZ area also will have the option to be under STPI or EOU as well. This will allow the Smart City to cater to the needs of different companies and customize their product offering accordingly.



### 8.3 Smart City Organisation Structure

It is proposed that DIC set up a professional team to manage the Smart City Operations. It is proposed that a number of smart city applications be set in a flat structure. The proposed Smart City Organisation will be a separate entity for the city. The Broad functional structure of the proposed DIC Smart City organization is given below:



As evident the Support services will be part of an separate spectrum segmented away from the customer facing activities. This business model lends itself to efficient customer focused business proposition.



DUBAI

#### 8.4 Smart City Marketing & Sales

DIC will conduct a detailed Marketing Research to ensure that the value proposition for Smart City is unique and self sustaining. The research will cover areas of local and global customer segmentation and detailed competitive analysis.

DIC will also design a pre and post launch all India and International marketing campaign to ensure that high level of awareness is generated for the project. Multiple PR events will also be planned to enhance the image of the city. A detailed brand building and positioning exercise will be conducted to ensure that Smart City becomes one of the leading brands in the Indian Technology market.

#### 9. Merging Info Park with Smart City

We were impressed not only by the beauty and professionalism of Kerala but also what has been achieved in Info Park in the short span of time. Given the potential of the two projects, we would like to recommend that both project merge and Smart City takes over the ownership and management of Info Park. The synergies that will be created by this merger will be far greater than if both projects operated independently in the same area.

It is suggested that the following steps be undertaken to merge Info Park with Smart City:

- Merge the land area of Info Park with Smart City.
- The investment by Kerala Government in buildings and land infrastructure so far in the development of Info-park be off-set against its equity contribution towards the proposed Smart City-Kerala Government Joint Venture. (9% Kerala Government and 91% DIC)
- DIC will invest in the further upgrade of the Infrastructure of Info-park to bring it to the same standards as Smart City.
- All current leases for office space and land In Info-Park will be transferred to Smart City.
- Info-Park will be owned and operated by the Smart City- Kerala Government proposed Joint Venture.



DUBAI

## 10. Future Developments

The new global knowledge economy is seeing the convergence of two potential forces information technology and bio-technology. Complementary to the development of the Smart City, it may be of enormous economic benefit to cultivate a biotechnology park in an adjoining area. Biotechnology in India, currently at approximately \$500 million, is expected to grow to \$9 billion by 2007-8. Biotechnology, much like the software industry, is knowledge intensive and accordingly, Kerala is well positioned to take advantage of this phenomenal growth. Its resource pool of low-cost but highly-skilled workforce, research institutions, technology, and other supporting components can provide numerous opportunities for biotech growth, which is expected to grow 25-30% annually. In addition, a symbiotic relationship can evolve harnessing IT capabilities, e.g. with bioinformatics in the areas of data mining and warehousing.

Benefits, however, are not limited to the international market. Domestically, biotechnology can serve as a driver towards innovation and further economic growth in two primary components of India's economic engine: agriculture and industry.

DIC and Kerala government can work together to create one of the leading Bio-Tech And R&D park in Cochin by extending the value proposition

## 11. Challenges for Smart City

The setting up of Smart City faces many challenges from DIC's perspective, some of these challenges and uncertainties are enumerated below:

- Cochin is yet to become a major IT destination.
- Today Cochin is not a natural choice for Domestic or International companies as an IT location. Hence a sustained and high powered international and local marketing effort will be required to change customer perception and expectations.
- Kerala is perceived as a labour militant state.
- In general Kerala is seen as a labour militant state with frequent strikes, even though IT sector is often excluded. We need the joint support and commitment of all political and social organizations to Smart City to mitigate this risk.
- Roads for Smart City.
- Existing roads are not sufficient even for construction phase of Smart City. Any delay on proposed roads could delay the completion of project.
- Change in State Government policies.



DUBAI

- Strong support of State Government through its policies are vital for the success of the project. Any dilution of the same in future could make the project unsustainable.
- Present rental rate of Infopark is less (Dhs.19.5 to 21.5 pa/sq.ft)
- Smart City is visualized as one of the most modern campus and will be the most expensive to construct. Present rental rate in Cochin is around 35 per cent of other major centers and hence Smart City will face a major financial risk in this area.
- Present land lease holders are not liable to pay civic charges.
- Smart city will incur Civic Charges on all the long term land leases. However in the land lease for Wipro and others under negotiation, there is no provision for Civic Charges, this is an added liability for Smart City.
- Change in Central Government policies.
- Central Government policies including those for Income Tax, Customs, SEZ and other areas are the ones that make the project viable. The viability of the project will be adversely effected if there is any change in these stipulations.
- Non cooperation of Government or other officials.
- Despite the good intentions and support of Central and State Governments, any non cooperation of officials at ground level could delay or cause inconvenience to operations.



DIBAI

---

## 12. Wish List

The following is the wish list of facilities or support required to make the project viable and successful. As we have not completed evaluation and risk analysis, this list may be treated as provisional and we may have to add other aspects that may come up during evaluation.

### 12.1 Commitment of Government of Kerala

- DIC expects a project investment (over the entire period of development) in excess of US \$ 300 million. This will bring in world class infrastructure, large number of job opportunities and above all critical mass of high technology professionals into Cochin, Kerala through innovative business models. This can only be possible with full support of Government of Kerala. If DIC has to gain confidence for making this massive investment, Government should declare the Smart City as the preferred destination for IT Investment. A strong commitment for long term joint marketing along with focused routing of business to the Smart City is essential. The existing Infopark should be developed as an incubator to the Smart City.
- It is imperative that until the business levels in the Smart City stabilizes, no new IT park shall be promoted in the Central region of Kerala with Government participation/support. The central region is defined to be the area between Alleppey and Calicut districts.

### 12.2 Benefits from Government

- Under SEZ scheme, it is obligatory for the State Government to extend certain facilities and concessions to a SEZ project. It is recommended that these special benefits be extended to Smart City even though certain components of Smart City may be outside the SEZ requirements but essential for the project as a whole.



DUBAI

---

### 12.3 Local Bodies

- Smart City may be made a separate local administration unit and outside the preview of any local bodies. This is crucial as the proposed site now falls under two Panchayats and hence could cause inconvenience.
- Exemption to be given from building tax, land tax and other state/local bodies taxes for Smart City, its tenants, workers and residents.

### 12.4 I.T. Incentives

- It is suggested that IT Incentives from Kerala Government to Business Partners be channelised through Smart City. Further Smart City should be allowed to set-off any dues from the Business Partners against these incentives. (Refer to clause f(1) of Manual for Kerala IT Industry Incentive Scheme 2001-2005; GO (MS) 14 dated 4.10.2002)
- Smart City should be deemed as a Government park for administering incentives and facilities.
- Smart City will fall under Group-B location as provided in clause 8 (1) of GO (MS) 10/2002/ITD dated 24.7.2002.

### 12.5 Infrastructure

- Future infrastructure development for this region should follow certain minimum standards and advisory opinion of Smart City may be considered. The region consist of an area is 2 Km from the Smart City boundaries.
- New roads, bridges and other infrastructural developments of the region should have synergy with master plan of Smart City.
- No activity that will bring down the value of the land should be allowed in an area defined to be 2 Km from the boundary of Smart City. Example of such undesirable activities are waste dumping yards, abattoir and discharge point of sewerage treatment plants.
- Smart City will not be obliged to handover areas within the zone developed for civic amenities as road, play area etc to any other authority or agency.



DUBAI

### 12.6 Labour

- If Smart City faces any labour unrest, Government should extend all possible support and assistance for an early settlement.
- Smart City including both SEZ and non SEZ area should be declared as an essential service/public utility service under relevant statutes.
- Smart City including both SEZ and non SEZ area should be exempted from the provisions of sanctions 6,9,10,11 and 20 of the Kerala Shops and Commercial Establishment Act,1960 (34 of 1960) so that Smart City will have flexible working hours.

### 12.7 Civic Amenities

- Government should build a Central School (Kendriya Vidyalaya) in the Zone.
- Government should locate the proposed International Business School in the Smart City and as envisaged in clause 12.2.2 of Information Technology Industry Policy Document.
- A Passenger check in counter in Smart City for air passengers of Cochin Airport.
- Central Ministry of Health to establish a Clinic in the Zone with suitable bed strength.
- Police Station and Fire Station should be available either within the zone or 3-5 Km of the Zone.
- Regular patrol by Police in Zone.
- No raid on economic issues should be conducted without prior intimation to Smart City.(Similar to SEZ provision)
- Regular bus services to and from the zone to various parts of Cochin and adjoining areas.
- Government will assist to get permanent water supply if water availability is not sufficient for Smart City at any point of time.

### 12.8 Power

- Adequate power to be provided at plot limit. Estimated to be 250 MW for each 500 acres.
- KSEB is to build adequate sub-stations to provide power at 11kV.
- Exemption from power cuts.
- Two feeders from different sources for redundancy.



- Power at concession rate for the whole Smart City.
- Exemption from Sales tax and Duties- including redistribution stage.
- SEZ benefits in terms of power cost, distribution rights and other benefits to be extended to non-SEZ sector of Smart City as well.
- Electrical towers to be relocated, if hinder master plan and with out any cost implication for Smart City.

**12.9 Land**

- In order to fulfill the vision of making Cochin an International IT hub, Smart City should have certain critical mass and hence adequate land availability for present and future development is critical. According to C.B. Richard Ellis study, even if Kerala attain 1.56% of Indian IT market and 3.24% of ITES, minimum space requirement will be 23.32 million sq.ft.
- Land to be provided to Smart City at a cost of Re.1 per acres and as follows:

Phase	Area	Market Use
Phase-1	1000 acres	Future Development
Phase-2	1000 acres	Future Development
Phase-3	1000 acres	Future Development
Phase-4	1000 acres	Future Development
Phase-5 (optional)	1000 acres	Future Development

**12.10 Infopark**

- Existing Infopark assets may be merged in the project free of all liability and in return for a nine percent (9%) equity in the whole project for the State Government. This step is to help the whole project to have a unified outlook and assist faster development of Cochin as an International IT destination.



### 12.11 Land Specifications

- Land should extend to peak of the hills and 100m beyond so that no future outside development will over look Smart City.
- No restriction on Smart City on land utilization. Smart City is a mixed development.
- Non encumbrance certificate for the land to be provided by the Government.
- No Land registration fee or Stamp duty for Smart City and other investors.
- Joint development of components and foreign ownership to be allowed.
- Will be allowed to widen water bodies.
- No encroachment through water bodies will be allowed.
- No pollution of water bodies to be allowed.

### 12.12 Master Plan

- Master plan/ Building plans proposals of Smart City will be approved by Government and relevant authorities without any alterations. Smart City may be allowed to approve such plans subject to any stipulations of Government.
- Infopark will complete the survey of land.
- Infopark to evaluate water availability in the proposed site.
- Exemption from Pollution Control Board.

### 12.13 Smart City Road

- Link road to Airport-Seaport road will be built and maintained by the Government as per Smart city standards.
- The road to be named as Smart City road.
- Smart City will be allowed to brand/advertise exclusively in the Smart City road.
- No commercial activity will be allowed in this road.
- Government will expand the road to 6 lanes + service road as traffic grows. Land will be frozen for this future expansion.
- May also consider it as an elevated road.

①  
DUBAI

#### 12.14 Other Roads

- Link road to Airport-Seaport road and Vegaland- Brahmapuram road should be completed within a definite time frame, not later than 6-8 months.
- Existing roads should be immediately widened and maintained to facilitate construction.
- Vegaland-Brahmapuram road not to bifurcate Smart City due to security reasons. An elevated segment could be considered.

#### 12.15 General

- Chief Minister of Kerala to be the patron of Smart city.
- Cabinet Sub Committee to be formed for supporting the project and its successful implementation.
- Smart City will have full operational and functional freedom and Government will not allow any interference from any State authorities.
- All benefits that are allowed by different statutes may be extended to Smart City as well.
- No future change in law or any new law or regulations will be formulated, which will adversely affect the Smart City, its benefits or its operation.
- The Marketing strategy of the Government as envisaged in IT Policy SI-3 to aggressively promote the State as the destination of choice for IT may be shared with Smart City
- Government will assist to establish a 'One Stop Shop' for getting all Government clearance and filing all returns/applications/statements, remitting fees or charges for Smart City, its companies, employees and residents to different departments and agencies. This could be similar to Customer Facilitation Cell (IT-CFC) as provided in clause 11.2 of Information Technology Industry Policy document.
- STPI may be requested to set up a STP center in Smart City.
- Smart City may have a Bio Technology and IT hardware manufacturing/assembling unit.
- STPI has invited application to establish the first Bio-IT park in India on November 25, 2004 and last date to submit RFQ is December 28, 2004. Though Cochin is not recognized as a potential location for the same, State Government may lobby to get the project for Smart City.
- The agreement between Government of Kerala and TECOM owned Indian Company for developing, operating and maintaining the infrastructure facility, which will be deemed as one under section 80-IA (4) (iii) (b) Income Tax Act.



DUNAI

- 
- ▼ A detailed strategy for Smart City
  - Market Research
  - Marketing Plan Summary
  - ▼ Operational Plan Summary
  - Financial Plan Summary

### 13.7 Appointment of Consultants

Smart City will appoint lead Legal and Master Planning consultants soon after signing of the MOU.

### 13.8 Project Office in Cochin

A project office of around 30 staff including some deputized from TECOM to opened in the second half of January, 2005.

### 14 Conclusion

In Kerala the land reforms of 1960s and Gulf migration that commenced in 1970s made profound impact on society and it improved the life style of economically back ward groups. Information Technology will create the third major wave of reforms in Kerala. Though Kerala was a pioneer with the formation of Keltron in 1970s and Technopark in 1980s, for some reason momentum was lost later to others. Smart City is visualized to be a catalyst for the IT revolution in the State and could become an Icon for modern and forward looking Kerala Society. This project will also create a successful model that could be replicated in other parts of the State for different segments and thus developing a positive 'can do' attitude in the society.



**Summary of Phases One to Three**

Zone Development			Zone Infrastructure					
Phase One to Three			Acres 546	FE2 23,768,304	FAR 2.2	Person/FE2 157	Coverage 30%	FE2 5,484,993
%	Projects	No. of Occupants & Jobs	Leasable Area sq Ft	Built up Area sq Ft	Gross Built up Area sq Ft	Plots Area sq Ft	Parking Lots	
1.39%	Hotel Building	1,290	151,200	201,600	201,600	118,857	143	
1.16%	Office Building 1	1,170	126,200	168,267	168,267	99,810	130	
1.16%	Office Building 2	1,170	126,200	168,267	168,267	99,810	130	
0.73%	Call Centers Building	1,640	125,000	156,250	156,250	62,500	68	
5.77%	Joint P.A. - Entertainment Center	454	299,000	548,000	585,833	495,000	126	
1.63%	Conference Center	62	43,000	86,000	117,000	140,000	103	
3.89%	DIC Residential Villas 100	300	180,000	180,000	180,000	333,333	100	
0.57%	DIC Residential Building 1	187	128,000	148,824	148,824	48,739	62	
6.30%	Club & Recreational Center	14	489,000	542,778	542,778	540,556	12	
1.87%	2 Plots Leased for Hotels: 100R	296	148,000	296,000	296,000	160,000	69	
3.89%	5 Plots Leased for DIC Towers	11,250	1,200,000	1,600,000	1,975,000	333,333	1,250	
8.12%	100 Medium Plots: 32,000 FE2	37,500	3,950,000	5,266,667	6,516,667	3,166,667	4,167	
12.59%	100 Large Plots: 60,000 FE2	96,000	9,800,000	13,066,667	16,266,667	6,000,000	10,667	
10.25%	200 Plots Residential: 31,000 FE2	37,333	25,000,000	29,058,824	32,792,157	6,764,706	12,444	
5.18%	One Plot Leased for University	10,800	649,000	1,048,333	1,062,333	444,444	47	
1.62%	2 Plots Leased for IT Colleges	2,800	208,000	333,333	487,333	139,394	513	
7.89%	3 Plots Leased for Schools	4,800	537,000	767,143	767,143	677,143	20	
2.91%	One Plot Leased for Hospital	467	176,000	293,333	293,333	250,000	0	
	<b>Totals</b>	<b>188,514</b>	<b>41,081,000</b>	<b>51,344,142</b>	<b>59,987,308</b>	<b>18,283,310</b>	<b>28,437</b>	



**Suggested Major Components**

The Project	No. of Occupants & Jobs	Leasable Area sq ft	Built up Area sq ft	Gross Built up Area sq ft	Plots Area sq ft	Parking Lots
<b>Main Building</b>	1,280	151,200	168,267	201,800	118,857	143
House Zone Management, Data Center, Partner Relations Dept. & Administration Includes four floors for lease for offices	No of Floors G+4					

The Project	No. of Occupants & Jobs	Leasable Area sq ft	Built up Area sq ft	Gross Built up Area sq ft	Plots Area sq ft	Parking Lots
<b>Office Building 1</b>	1,170	126,200	168,267	168,267	89,810	130
Leasable office space, Meeting rooms, Food Court & Retail in Ground Floor. Four Floors for lease for offices	No of Floors G+4					

The Project	No. of Occupants & Jobs	Leasable Area sq ft	Built up Area sq ft	Gross Built up Area sq ft	Plots Area sq ft	Parking Lots
<b>Office Building 2</b>	1,170	126,200	168,267	168,267	89,810	130
Leasable office space, Meeting rooms, Food Court & Retail in Ground Floor. Four Floors for lease for offices	No of Floors G+4					



The Project	No. of Occupants & Jobs	Leasable Area sq ft	Built up Area sq ft	Gross Built up Area sq ft	Plot Area sq ft	Parking Lots
Call Centers including	1,600	128,000	196,280	154,250	62,500	48
Leasable office space & technical service in Ground Floor. Four Floors for lease for Call Centers	No of Floors 6+4					

The Project	No. of Occupants & Jobs	Leasable Area sq ft	Built up Area sq ft	Gross Built up Area sq ft	Plot Area sq ft	Parking Lots
Retail & Entertainment Center	454	299,000	548,000	585,833	495,000	126
Mega Shopping Mall working as the main shopping and entertainment center in town. Includes shops, cafes, restaurants and cinemas.	No of Floors 6+2					

The Project	No. of Occupants & Jobs	Leasable Area sq ft	Built up Area sq ft	Gross Built up Area sq ft	Plot Area sq ft	Parking Lots
Conference Center	62	43,000	66,800	117,000	140,000	100
Auditorium for 1000 seats with lecture, meetings and business facilities.	No of Floors 6+1					

MINUTES OF THE 10<sup>th</sup> MEETING OF AUDIT COMMITTEE ("AC") OF SMARTCITY (KOCHI) INFRASTRUCTURE PRIVATE LIMITED ("SCK") HELD AT COURTYARD BY MARIOTT KOCHI AIRPORT, OPP. KOCHI INTERNATIONAL AIRPORT NEDUMBASSERY, KOCHI ON 19<sup>th</sup> DAY OF DECEMBER 2014 AT 11.00 A.M.

**Members Present:**

1. Mr. P.H. Kurian, IAS, Director
2. Dr. Bajju George, Director & Chairman-AC
3. Mr. Jinu John Jacob, Company Secretary (Convener)

**Walked In:**

4. Mr. Gigo Joseph, CEO, SCK

**Item# 1 To appoint the Chairman**

The members appointed Dr. Bajju George, as the chair for the meeting. The Chairperson after ascertaining the requisite quorum called the meeting to order

**Item# 2 To grant leave of absence to the AC members not present**

Chairperson noted that all members are participating.

**Item# 3 Consideration and approval of Minutes of the 9<sup>th</sup> AC Meeting**

The minutes of 9<sup>th</sup> the members of the Audit Committee of SmartCity (Kochi) Infrastructure Pvt Ltd held on 29<sup>th</sup> August, 2014 at Cochin was read and confirmed.

**Item# 4 Matters arising out of Previous Meeting.**

The Whistle Blower Policy has been implemented in the Company after approval from the Board of Directors of SmartCity (Kochi) Infrastructure Pvt. Ltd.

As per the discussion in the 9<sup>th</sup> AC Meeting held on 29<sup>th</sup> August, 2014 opinion was obtained from PWC, Statutory Auditors and AZB Partners, Delhi, who are SCK lawyers, on applicability of Section 92E of Income Tax Act, 1961. The report was circulated among



the Board Members on 20th November, 2014. The opinion was that the report under Section 92E of Income Tax Act, 1961 is applicable to SmartCity (Kochi) Infrastructure Pvt. Ltd.

The company had entered into an agreement with CN Partners LLP, Bangalore, Company Secretaries in Practice as authorized by the 9<sup>th</sup> Audit Committee Meeting.

**Item# 5 Auditor Appointment for 2015.**

The AC directed Company Secretary to come up with a panel of suitable Chartered Accountant firms that can be considered for appointment. Recommended firms should be based in Kerala to improve efficiency and minimise expenses. Current fee is quite high, considering size and operations of this company.

**Item# 6 Audit Plan for the financial year ended 31<sup>st</sup> December, 2014.**

AC was informed that the Statutory Auditors, PWC intends to finalize the Audit Report for the year ended 31<sup>st</sup> December, 2014 by February 27, 2015.

AC instructed that the audit report for the year ended 31<sup>st</sup> December, 2014 should be tabled before the Audit Committee and then presented before the Board with the comments of the Audit Committee.

AC also instructed that all inter- company transactions should be settled. The Company should also look at the possibility of booking tickets from Cochin for Directors based in Dubai.

AC also directed to look into the possibility of obtaining Corporate Credit Card for the Company to book tickets.

Company Secretary informed that Internal Auditor is in the process of verifying old documents received recently from Dubai office and subsequently will revise their internal audit report and present the same before next AC.

**Item# 7** SBT Term Loan update.

AC was informed that as approved by the 41<sup>st</sup> Board of Directors Meeting, Dr. Bajju George as a Director had signed the Facility Agreement and Hypothecation Agreement with SBT on 24<sup>th</sup> October, 2014 and after taking second legal opinion from AZB Partners. The Company had also registered the mortgage deed on 5<sup>th</sup> December, 2014 with the Sub-Registrar Office, Kakkanad. The company had since started availing the facility.

Mr. P.H. Kurian directed that the company should draw only funds required immediately for project and only as and when required. Drawing funds in advance and making it to idle in current account should be avoided to minimise incidence of interest.

Mr. Kurian added that when negotiating for such facilities, company should have availed expertise of a consultant to get best terms and conditions as available in India. Management should have at least consultant him to know about local practises and as he had managed availing of several similar loan for infrastructure development, which could have assisted to improve terms including avoidance of monthly rest for interest calculation.

**Item# 8** Affixing of Common Seal.

AC was informed by Company Secretary that the Articles of Association of SmartCity (Kochi) Infrastructure Pvt. Ltd. stipulates that the company common seal shall not be affixed to any instrument except by the authority of a resolution of the Board or of a committee of the Board authorized by it in that behalf, and only in presence of at least two directors and of the secretary or such other person as the Board may appoint for the purpose and those two directors and the secretary or other person as aforesaid shall sign every instrument to which the Seal of the Company is so affixed in their presence.

The Framework Agreement doesn't mention about Common Seal.

AC recommended that the amendment to the Articles of Association in matter related to Common Seal be presented before the Board for approval.



"RESOLVED THAT Clause 94 (ii) of Articles of Association with respect to Common Seal may be amended as " The Seal of the Company shall not be affixed to any instrument except by the authority of a resolution of the Board or of a committee of the Board authorized by it in that behalf and except in the presence of at least one Director and of the Secretary or such other person as the Board may appoint for the purpose and the Director and the Secretary or other person as aforesaid shall sign every instrument to which the Seal of the Company is so affixed in their presence"

**Item# 9****Ratification of Circular Resolution****1. Appointment of Chartered Accountant to issue Report under Section 92E of Income Tax Act, 1961.**

The company had requested the CN Partners LLP, Bangalore our Consultant Company Secretary to suggest Auditors from Bangalore for the work. The Bangalore Chartered Accountant firm, Gnanoba & Bhat suggested that a local Chartered Account be appointed in this regard. Mr. Raphaël Sharon a Chartered Accountant in Cochin did not show interest in the work.

The company had held discussion with G. Joseph and Associates, Chartered Accountants, Cochin in this regard. G. Joseph and Associates have agreed to carry on this work for a fee of INR 25,000 per year.

**Circular Resolution was taken on November 20, 2014** with regard to appointment of M/s G. Joseph and Associates, Chartered Accountants for issue of Report under Section 92E of Income Tax Act, 1961. The resolution was approved on November 20, 2014 by AC Members by circular resolution as below, which was ratified by AC.

"RESOLVED THAT, G. Joseph and Associates, Cochin be and is hereby appointed as Chartered Accountant for issue of Report under Section 92E of Income Tax Act, 1961 for a fee of INR 25,000 per year until financial year 31st March, 2014 for report to be issued by 30th November, 2014."

**Item# 10**

Any other matter with the permission of the Chair.

Mr. Gigo Joseph raised an issue that Chairman of Audit Committee was interfering in day to day operations of the Company and giving instructions directly to SCK employees.

Mr. P.H. Kurian added that same concern was raised by CEO before Executive Committee of SCK earlier and same was documented with a direction to inform Vice Chairman-SCK. He further added that if this concern is correct, it should be avoided.

Upon directed by Chairman to be more specific about the instances of interference in operations by Chairman-AC, Mr. Gigo added that Chairman-AC had met staff members individually earlier and one lady employee raised her concern to him that she was being asked questions and wondered if she had committed any mistakes.

Chairman clarified that interview was conducted as a part of risk mitigation process and to find if any improvement to internal controls are required. In that series of interviews, Chairman - AC met all employees including CEO as mandated by Terms of Reference of Audit Committee and it can in no way be portrayed as interference in operations. Chairman directed the Company Secretary to inform the Executive Committee - SCK suitably and report.

**Item# 10**

**Vote of Thanks**

There were no other items and the meeting concluded at 12.00 PM with a vote of thanks to Chair

PLACE:

CHAIRPERSON OF THE MEETING

DATE:

Dr. BAJU GEORGE

## SmartCity (Kochi) Infrastructure Private Limited

## Balance Sheet as at December 31, 2014

(All amounts are in Indian Rupees, unless otherwise stated)

	Note	As at December 31, 2014	As at December 31, 2013
<b>Equity and Liabilities</b>			
<b>Shareholder's Funds</b>			
Share Capital	3	1,950,000,000	1,200,000,000
Reserves and Surplus	4	(172,875,672)	(155,704,577)
Share application money pending allotment		-	750,000,000
		<u>1,777,124,328</u>	<u>1,794,295,423</u>
<b>Non-Current Liabilities</b>			
Long-term Borrowings	5	71,000,000	-
Long-term Provisions	6	434,669	-
		<u>71,434,669</u>	<u>-</u>
<b>Current Liabilities</b>			
Trade Payables	7	16,051,289	135,525,204
Other Current Liabilities	8	251,270,973	42,321,157
Short-term Provisions	9	-	11,559,934
		<u>267,322,262</u>	<u>189,406,295</u>
<b>Total</b>		<u><b>2,115,881,259</b></u>	<u><b>1,983,701,718</b></u>
<b>Assets</b>			
<b>Non-current Assets</b>			
<b>Fixed Assets</b>			
Tangible Assets	10	45,855,906	57,198,053
Intangible Assets	11	965,090,113	975,595,163
Capital Work-in-progress	12	866,876,111	198,861,789
Long-term Loans and Advances	13	69,988,686	4,822,065
Other Non-current Assets	14	50,000	50,000
		<u>1,947,860,816</u>	<u>1,236,527,070</u>
<b>Current Assets</b>			
Cash and Bank Balances	15	161,070,523	736,978,005
Short-term Loans and Advances	16	6,606,503	9,292,157
Other Current Assets	17	343,417	904,486
		<u>168,020,443</u>	<u>747,174,648</u>
<b>Total</b>		<u><b>2,115,881,259</b></u>	<u><b>1,983,701,718</b></u>

The accompanying notes are an integral part of these financial statements

In terms of our report of even date

For Price Waterhouse, Bangalore  
Firm Registration Number : 0075685  
Chartered Accountants



Sachin Parekh  
Partner  
Membership Number: 107038

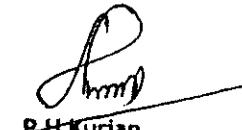
For and on behalf of the Board of Directors



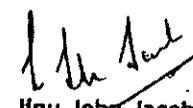
Abdullahif Al Mulla  
Director



Dr. Bajju George  
Director



P.H. Kurian  
Director



Jinu John Jacob  
Company Secretary

Place: Chennai  
Date: June 24, 2015

Place: Trivandrum  
Date: June 24, 2015

## SmartCity (Kochi) Infrastructure Private Limited

## Statement of Profit and Loss for the year ended December 31, 2014

(All amounts are in Indian Rupees, unless otherwise stated)

	Note	As at December 31, 2014	As at December 31, 2013
<b>Income:</b>			
Revenue from Operations		-	-
Other Income	19	37,229,604	58,323,649
<b>Total Revenue</b>		<b>37,229,604</b>	<b>58,323,649</b>
<b>Expenses:</b>			
Employee Benefits Expense	20	10,254,275	8,684,537
Depreciation and Amortisation Expense	21	16,288,472	14,689,259
Other Expenses	22	25,402,198	32,056,344
<b>Total Expenses</b>		<b>51,944,945</b>	<b>55,430,140</b>
<b>Profit/ (Loss) Before Tax</b>		<b>(14,715,341)</b>	<b>2,893,509</b>
<b>Tax Expense</b>			
Tax Expense	27		
Current Tax		-	-
Deferred Tax		-	-
Tax relating to earlier years		2,455,754	-
<b>Profit/ (Loss) after Tax</b>		<b>(17,171,095)</b>	<b>2,893,509</b>
<b>Earnings/(Loss) per Share: [Nominal Value Rs. 10</b>			
<b>(Previous year- Rs 10)]</b>			
Basic		(0.11)	0.02
Diluted		(0.11)	0.01

The accompanying notes are an integral part of these financial statements

In terms of our report of even date

For Price Waterhouse, Bangalore  
Firm Registration Number : 0075685  
Chartered Accountants



Sachin Parekh  
Partner  
Membership Number: 107038

Place: Chennai  
Date: June 24, 2015

For and on behalf of the Board of Directors



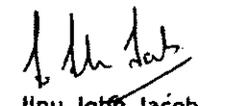
Abdulkatif Al Mulia  
Director



Dr. Bajju George  
Director



P.H. Kurian  
Director



Jinu John Jacob  
Company Secretary

Place: Trivandrum  
Date: June 24, 2015



1/Annexure - 3

41

**GOVERNMENT OF KERALA**

**Abstract**

Information Technology Department - Setting up a Smart City at Kochi, by Dubai Internet City - Constitution of High Level Team - Orders issued.

**INFORMATION TECHNOLOGY (A) DEPARTMENT**

G.O.(MS) No: 01/2005/ITD.

Dated, Thiruvananthapuram, 13.01.2005

**ORDER**

Dubai Internet City (DIC) has been in discussion with the State Government for some time to establish an integrated IT campus at Kochi. The DIC authorities visited Kochi, in July and November, 2004 and held discussions with various State Government Agencies and the IT Department to explore feasibility of setting up a Smart City at Kochi.

2. DIC has now forwarded a formal proposal for setting up the Smart City. The project proposal involves several critical policy issues and has financial implications of considerable magnitude.

3. In the circumstance, Government are pleased to constitute a High Level Team under the Chairmanship of Chief Secretary, with the following members for conducting discussions with representatives of DIC and for formulating a draft package of proposals.

1. Shri. John Mathai, Principal Secretary, Industries - I.
2. Shri. K. Jose Cyriac, Principal Secretary, Finance.
3. Shri. P.H. Kurien, Managing Director, KSIDC.
4. Shri. Dinesh Sharma, Secretary to Chief Minister.
5. Smt. Aruna Sundararajan, Secretary, Information Technology.

4. The recommendations of the High Level Team will be placed before the Council of Ministers for its consideration:

By Order of the Governor  
K.J. DAVIS,

ADDITIONAL SECRETARY TO GOVERNMENT

To

All members of High Level Team.

Copy to:

The Secretary to Chief Minister.

The Private Secretary to Chief Minister.

The Additional Secretary to Chief Secretary.

The C.A. to Secretary IT.

The C.A. to Additional Secretary IT.

The General Administration (SC) Department (Vide item No. 270, dated 12.01.2005)

Stock File/Office Copy.

FORWARDED/BY ORDER

For Notes and

Orders vide G.O (MS) 20/2005/ITD

SECTION OFFICER

## APPENDIX III APPENDIX FROM AUDIT REPORT

(Reference Paragraph 6.6)

Details of 246 acres of land in three non-contiguous parcels  
and 167 acres of future land

Sl. No.	Land	Parcel I (North)	Parcel II (South)	Parcel III (South)
1.	Area (hect)	53.838	24.57	25.59
2.	Area (acres)	131	60.55	63.51
3.	Location	Opposite Infosys	Opposite Infosys	Opposite Infosys
4.	Block	9	37	37
5.	Survey Nos.	640 to 656, 665, 666, 686, 687, 689, and 704 to 712.	82, 63, 67 to 74, 101, 103 to 109	194, 270, 270/2
6.	Village	Kakkanaid	Kakkanaid	Kakkanaid
7.	Tahuk	Kannanur	Kannanur	Kannanur
8.	District	Ernakulam	Ernakulam	Ernakulam
9.	Mode of Acquisition	Acquired from Public	KSEB (Drainage project) plus four families	APCDA - PSU
10.	Cost (₹ crore)	84.68	7.57 (To be paid by Government of Kerala)	7.57

### Description of Future Land -

1.	Area in acres	Approx. 70.48 acres	Approx. 96.59 acres
2.	Block	36	37
3.	Survey Nos.	365, 368 to 381 and 384	72 to 85, 87 to 100, 102 to 114
4.	Village	Kannanur	Kannanur
5.	Tahuk	Kannanur	Kannanur
6.	District	Ernakulam	Ernakulam