AIR INDIA CHARTERS LIMITED

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BOARD OF DIRECTORS (AS ON 15.12.2009)

Shri Arvind Jadhav	**Chairman**
Smt. Abha Shukla	
Shri L. Raja Sekhar Reddy	
Shri S. Chandrasekhar	

Company Secretary

Smt. Aditi Khandekar

Auditors

M/s. J.P.J. Associates
Chartered Accountants
Mumbai.

Legal Advisors

M/s. M. V. Kini & Co.

Bankers

ICICI Bank

HDFC BAnk

State Bank of India

Registered Office

21st Floor, Air India Building,
Nariman Point,
Mumbai-400 021.

DIRECTORS' REPORT

The Directors take pleasure in presenting the Thirty-Eighth Annual Report of the Company together with the Audited Accounts and Auditor's Report for the year ended 31 March 2009.

CIVIL AVIATION SCENARIO

Passenger Traffic

2008

International passenger traffic grew 0.8% for the full year 2008, considerably less than the 5.9% increase recorded during 2007. The stagnation in traffic growth numbers reflect the economic recession afflicting many of the world economies. World economic growth for the year 2008 was only 1.7%.

2009

Year 2009 is projected to show even more dismal picture. As per the IATA forecast the international passenger traffic will decrease by 4 % which will be in line with 2.6 % drop expected in the world Gross Domestic Product (GDP).

In March, IATA predicted that the 2009 net loss would be US$4.7 billion, but the airline environment has worsened since then. IATA on 15 September 2009 had announced a revised global financial forecast predicting airline losses totaling US$11 billion in 2009 due to rising fuel prices and exceptionally weak yields. Industry revenues for the year 2009 are expected to fall by US$ 80 billion to US$ 455 billion compared with 2008 levels.

The industry loss calculation for 2008 was also revised upward to US$16.8 billion, compared to the previous estimate of US$10.4 billion.

Fuel

Unlike the gloomy growth numbers of passenger traffic and world GDP, fuel prices are forecasted to provide a much needed relief this year. Average Crude Oil price which was US$ 99 per barrel in 2008 is projected to be US$ 61 per barrel in 2009. Due to the expected economic recovery fuel price is expected to rise in 2010. The current fuel price ranges between US$70-US$80 per barrel. Due to the drop in prices this year, fuel constitutes 25% of the operating costs. In 2008 with high prices, fuel bill constituted 32% of the operating costs.

CIVIL AVIATION SCENARIO IN INDIA

After three years of outstanding market growth, but only limited profitability, India's airline system suffered a jolt in 2008. The airline industry is expected to post a combined operating loss of US$ 2 billion for the 12 months ending 31 March 2009. The losses can be attributed to over-ambitious growth strategies and poor management, which were further accentuated by external factors such as the fuel price spike, slowing demand and the depreciation of the Indian Rupee.

Based on the carriage data as available from the Airport Authority of India, scheduled international passenger carriage during the year 2008-09 recorded a growth of 5.9% (35.58 million) versus the carriage in 2007-08. However the domestic passenger carriage dropped considerably by 11.2 % (77.30 million) in 2008-09 as compared to 2007-08.

REVIEW OF PERFORMANCE

The highlights of the Physical and Financial Performance of the Company for 2008-09 vis-a-vis 2007-08 are as under :

The Scheduled Services Revenue, before revenue sharing with the holding company National Aviation Company of India Limited (NACIL), increased from Rs.1,283.52 crores in 2007-08 to Rs.1,713.32 crores in 2008-09. The increase was primarily on account of increased operations, due to induction of new owned fleet.

During the year under review Total Revenue, after revenue sharing with NACIL, was Rs.1,416.35 crores as compared to Rs.1160.31 crores for the year 2007-08 representing an increase of approx. 22%. The total expenditure of the Company likewise was Rs.1,756.64 crores as against Rs.1,170.59 crores for the year 2007-08 representing an increase of 50%.

The increase in expenditure was primarily due to increase in Manpower Cost - Rs.38.37 Crores (57%), Fuel Cost - Rs.298.23 Crores (62%) and Handling Cost - Rs.68.68 Crores (115%).

The Net Loss before taxation was Rs.340.29 crores as against Rs.10.27 crores in 2007-08.

SUMMARISED FINANCIAL PERFORMANCE :

	Rupees in Crores
Total Revenue	1,416.35
Total Expenses	1,756.64
Profit/(Loss) before taxation	(340.29)
Less : Provision for tax	(0.27)
Less : Deferred Tax Liability written back	0.96
Net Profit / (Loss)	(339.60)
Add : Balance brought forward from last year	(6.06)
Net Profit / (Loss) carried forward	(345.66)

SUMMARISED PHYSICAL PERFORMANCE :

ASKMs (Millions)	7,657.83
RPKMs (Millions)	5,575.27
Pax Load Factor	72.80
No. of Revenue Pax (Millions)	2.237
Yield Per RPKM	3.02
Single Flights	17,332
Revenue Flying Hours	67,110

SHARE CAPITAL

As on 31 March 2009, the Authorised Capital of the Company was Rs. 30 crores divided into 30 lakhs Equity Shares of Rs.100 each.

FOREIGN EXCHANGE EARNINGS / EXPENDITURE

During the year under report, the Foreign Exchange earnings of the Company were Rs.55.90 crores as against Rs.73.09 crores during the previous year.

AIRCRAFT FINANCING

As on 31 March 2009, the position of foreign currency borrowing for Aircraft was as under :

	Rupees in Crores
Total Loan due as on 1 April 2008	1,889.60
Add : Amount drawn during April 2008 to March 2009	1,001.20
	2,890.80
Less : Amount repaid during April 2008 to March 2009	677.70
Add : Exchange adjustments due to revision in Rates of currencies	542.20
Balance as on 31 March 2009	2,755.30

AIR INDIA EXPRESS OPERATIONS

Fleet Size

As on 31 March 2009, the company had 21 B737-800 aircraft (including 7 dry leased aircraft) in its fleet. During 2008-09 three owned B737-800 joined the fleet.

Operations

Air India Express ended Winter 2007-08 with 141 international flights per week. Summer Schedule 2008-09 which began on 30 March 2008 saw the commencement of many new flights on new sectors. Effective 5 June 2008 Express started 3 weekly flights between Hyderabad and Dubai. Effective 14 July 2008 Kuwait became the 13th international station for Air India Express with the start of flights to this place from Kochi, Kozhikode and Mangalore.

In July Air India Express' long standing request for operating to Dhaka was granted and the inaugural flight from Dhaka to Kolkata/Bangkok commenced on 20 July 2008. That was followed by a flight between Dhaka to Kolkata/Singapore the next day.

In all, Express commenced these Dhaka operations with 3 flights/week to Bangkok and 3 flights/week to Singapore. In addition there was a once a week flight between Dhaka and Mumbai.

In September Air India Express placed the newly inducted aircraft in Thiruvanthapuram. The new aircraft allowed an increase in frequency from two to seven per week on the Thiruvanthapuram/Dubai sector effective 16 September 2008.

Air India Express started flights between Nagpur and Dubai in September 2007. Due to many factors including the limited market potential of Nagpur, the flights never measured up to expectations and struggled to cover cost of operations. As an attempt to reverse the fortunes of the flight ex-Dubai, Ahmedabad was added in the routing on all three flights per week in October 2008.

In order to meet the growing demand on the Kozhikode/Dubai sector Air India Express had introduced 5 weekly day flights in July 2007. These were later increased to 7 flights per week. These flights were in addition to the 7 weekly night flights that were there on that sector. However due to slackening in demand and over capacity due to the entry of many rival airlines on this sector, Express discontinued these 7 day flights effective 30 October 2008. Effective 14 January 2009 thrice weekly day time flights from Kozhikode to Dubai via Mangalore were commenced.

As a consequence of the demand seen on flights out of Mangalore, Express decided to place a dedicated aircraft in Mangalore in January 2009. Before this, all Mangalore flights used to originate from other cities, with Mangalore being a transit point. In many cases this used to result in dilution of capacity reserved for Mangalore with a small share of the capacity going to the originating station of the flight. A dedicated aircraft was positioned in Mangalore on 12 January 2009 which was tasked to operate point to point flights from Mangalore to Dubai, Doha/Bahrain and Abu Dhabi/Muscat. January 2009 also saw the resumption of Air India Express operations between Pune and Dubai. The operations on the Pune/Dubai sector commenced on 14 January 2009 with three flights/week. Owing to the commendable performance of the Mangalore/Kuwait flights the frequency was increased from two to three flights/week. Effective 23 January 2009 the frequency on the Thiruvanthapuram/ Doha/Bahrain sector was increased from one to three flights per week.

Air India Express also played its part in the integration of people of Kashmir into the national mainstream by putting Srinagar on the international air map with the commencement of operations to Dubai. The once a week flight on the Srinagar/Dubai sector was inaugurated on 14 February 2009, along with the inauguration of Srinagar as an international terminal.

In March 2009 Express increased the frequency of flights between Trichy and Dubai. With effect from 9 March 2009 the number of flights on the Trichy/Dubai sector were increased from 3 to 7 per week.

Air India Express ended the Winter Schedule 2008-09 with 168 international flights. The following table gives the breakup of the total flights as at the end of the Winter 2008-09 Schedule.

Sr. No.	Sector	Flights/Week
1.	India / Dubai	60
2.	India / Sharjah	17
3.	India / Abu Dhabi	17
4.	India / Abu Dhabi/Muscat	3
5.	India / Muscat	6
6.	India / Doha / Bahrain	13
7.	India / Al Ain	1
8.	India / Salalah	3
9.	India / Singapore	17
10.	India / Kuala Lumpur	7
11.	India / Colombo	7
12.	India / Bangkok	3
13.	India / Dhaka	7
14.	India / Kuwait	7
15.	India / Abu Dhabi/Muscat	* 6
16.	BOM / COK / BOM (Hub N Spoke)	* 7

* Air India flights

During the year 2008-09 Air India Express carried around 2.26 million passengers as against 1.7 million carried last year registering a growth of 33 %.

During the Summer and Winter 2009 Schedules, Air India Express increased frequencies on many of the existing routes like Sharjah, Muscat, Doha/Bahrain, Singapore, Abu Dhabi etc.

Extra Section Flights

44 flights in Phase-I and 44 flights in Phase-II were operated for Haj with two of our aircraft under AI flight numbers.

Aircraft despatch reliability

The average despatch reliability for the year was 99%.

On Line Stations

As on 31 March 2009 the online stations were as under :

India	:	Kochi, Kozhikode, Thiruvanthapuram, Amritsar, Mangalore, Delhi, Mumbai, Chennai, Lucknow, Jaipur, Trichy, Kolkata, Nagpur, Pune, Ahmadabad, Hyderabad and Srinagar.
Foreign	:	Muscat, Salalah, Sharjah, Dubai, Abu Dhabi, Singapore, Al Ain, Colombo, Bangkok, Doha, Bahrain, Kuala Lumpur, Kuwait and Dhaka.

Innovative Tail Designs

The tail designs are an innovative and novel feature of the Air India Express aircraft. They depict different facets of traditional and contemporary India representing the heritage values and ethos of our country.

The 20th aircraft, VT-AXX which arrived in August 2008, showcases the natural wealth of India on both sides of the tail. One side of the tail has the image of the famous Himalayan Mountain Range. The other side has the image of a beautiful beach along the coastline of India.

The 21st aircraft, VT-AXZ joined the fleet in February 2009, showcases the picturesque landscapes of India on its tail. One side of the tail has an image of a *shikara* on the Dal Lake in Kashmir and the other side has an image of a large expanse of a Rajasthani desert.

FUTURE PLANS

The Company had ordered 18 New Generation 737-800 aircraft from M/s. Boeing of which 17 have already arrived. The last aircraft is scheduled to be delivered on 17 December 2009.

Out of the seven B737-800 aircraft taken on dry lease three are being returned after expiry of their lease period starting from February 2010.

The Economic slowdown has resulted in a significant drop in the number of work visae being issued. A lot of projects particularly in the construction industry in Dubai have been suspended and the workers are being sent back. Consequently the India-Gulf route has been badly affected resulting in drop in revenue and yields. Further the H1N1 scare, decrease in work visae to Singapore/ Kuala Lumpur and increased competition has also affected the performance of the South East Asia route during the year 2009-10. The shortage of Pilots has also resulted in lower utilization of aircraft capacity.

With the continuous monitoring of routes, tweaking of schedules to improve utilization of aircraft and maximize revenues, operating code share flights with parent company NACIL etc. the Company is confident of meeting the future challenges.

HUMAN RESOURCES

Staff Strength

The staff strength as on 31 March 2009 was as under :

SC	155
ST	46
OBC	245
General	510
Total	956

IMPLEMENTATION OF OFFICIAL LANGUAGE

The Company is taking effective steps for the implementation of the provisions of the Official Language Act and Rules framed under the Act.

VIGILANCE

During the year under review there was no vigilance case in the Company.

DISCLOSURE OF PARTICULARS OF EMPLOYEES

Information pursuant to Section 217 (2A) of the Companies Act, 1956 read with the Companies (Particulars of Employees) Rules, 1975 is annexed to this report.

DIRECTORS

As on 31 March 2009 the Board of Directors of the Company comprised of the following :

Shri Raghu Menon Chairman & Managing Director, NACIL	Chairman
Smt. Abha Shukla Director, Ministry of Civil Aviation	
Shri L. Raja Sekhar Reddy Director, Ministry of Civil Aviation	
Shri S. Chandrasekhar Director - Finance, NACIL	
Shri S. Mukherjee Exe. Director - Headquarters, NACIL	

Effective 4 May 2009 Shri Arvind Jadhav, CMD, NACIL was appointed on the Board of the Company *vice* Shri Raghu Menon.

On attaining superannuation from NACIL, Shri S. Mukherjee ceased to be Director on the Board of the Company effective 1 September 2009.

The Board places on record its appreciation of the valuable services rendered by Shri Raghu Menon and Shri S. Mukherjee during their tenure as Chairman and Director of the Company respectively.

The Board met 4 times during the year to discuss important issues which *inter alia* included financing of aircraft, working capital borrowings, Revenue & Expenditure Budget, Depreciation Policy for the new aircraft, sending aircraft to outside agency for 'C' check, revision of emoluments of employees etc.

AUDIT COMMITTEE

As on 31 March 2009 the Audit Committee of the Board comprised the following Members :

Shri Raghu Menon
Shri L. Raja Sekhar Reddy
Shri S. Chandrasekhar

The Audit Committee was reconstituted on 15 May 2009 and now comprise the following Members :

Shri L. Raja Sekhar Reddy
Shri Arvind Jadhav
Shri S. Chandrasekhar

Terms of Reference

1. to consider the appointment of the external auditor, the audit fee and all matters related to an auditor's resignation or dismissal;
2. to discuss with the external auditor, before the audit commences, the nature and scope of the audit and to ensure coordination where more than one audit firm is involved;
3. to review the half-yearly and annual financial statements before submission to the Board;
4. to discuss problems and reservations arising from the interim and final audits and any matter that the auditor may wish to discuss in the absence of Management where necessary;
5. to review the statutory auditor's report, Management's response thereto and to take steps to ensure implementation of the recommendations of the Statutory Auditors;
6. to review the Company's statement on internal control systems prior to endorsement by the Board;
7. to review the internal audit programme, ensure coordination between the internal and external auditors and also to ensure that the internal audit function is commensurate with the size and nature of the airline's business and is provided adequate resources and representation within the Company;
8. to consider the major findings of internal investigation and Management's response thereto;

9. to review on a continuous basis the internal controls, systems and procedures in the Company and to make suggestions to strengthen these controls etc.; and

10. to consider other matters as defined by the Board.

AUDITORS

The Comptroller & Auditor General of India has appointed M/s. J.P.J. Associates as Statutory Auditors of the Company for the financial year 2008-09.

COMMENTS OF COMPTROLLER AND AUDITOR GENERAL

The Comments of the Comptroller and Auditor General of India under Section 619(4) of the Companies Act, 1956 on the accounts of the Company for the year ended 31 March 2009 are annexed to this report.

DIRECTORS' RESPONSIBILITY STATEMENT

(i) In the preparation of the Annual Accounts, the applicable accounting standards have been followed along with proper explanations relating to material departures;

(ii) The directors have selected such accounting policies and applied them consistently and made judgments and estimates that are reasonable and prudent so as to give a true and fair view of the state of affairs of the Company at the end of the financial year and of the profit or loss of the Company for that period;

(iii) The directors have taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of the Companies Act, 1956 for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities;

(iv) The directors have prepared the Annual Accounts on a 'going concern' basis.

ACKNOWLEDGEMENTS

The Board sincerely appreciates the Company's valued customers in India and abroad for using the services of Air India Express and looks forward to their continued support and confidence. The Board also expresses its deep sense of appreciation for the sincere and devoted service rendered by the employees of the Company.

The Board also gratefully acknowledges the support and guidance received from parent Company viz. National Aviation Company of India Ltd., various Ministries of the Government of India, and the Ministry of Civil Aviation in particular, in Company's operations and development plans. The Board expresses their grateful thanks also to the DGCA, Comptroller and Auditor General of India, the Ministry of Corporate Affairs, the Statutory Auditors, Airports Authority of India, other Govt. Departments, airlines, agents, Indian Financial Institutions and banks including the EXIM bank of USA.

For & on behalf of the Board

Sd/-
Arvind Jadhav
Chairman

Place : New Delhi
Date : 14 December 2009

ANNEXURE

Information Pursuant to Section 217(2-A) of the Companies Act, 1956 read with the Companies (Particulars of Employees) Rules 1975 and forming part of the Director's Report for the year ended 31st March 2009.

List of staff whose salary exceeds Rs. 2,00,000 a month or Rs. 24,00,000 annually.

SR. NO.	NAME OF THE EMPLOYEE	DESIGN-ATION	AGE YEARS	EXP. YEARS	REMUNE-RATION	QUALIFICATION	DATE OF JOINING	LAST EMPLOYMENT
1.	CAPT SUNNY ASALDEKAR	CAPTAIN	27	5	3777235	B.Com.	24/11/2004	N/A
2.	CAPT CHAMELI	CAPTAIN	31	5	3137171	M.Com.	24/11/2004	N/A
3.	CAPT SAJNEESH SHARMA	CAPTAIN	33	5	3684978	H.S.C.	24/11/2004	N/A
4.	CAPT KAVITA DEWANPELLI	CAPTAIN	33	5	2776212	B.S.C.	14/12/2004	N/A
5.	CAPT. V. S. RAJKUMAR	CAPTAIN	35	5	4702641	B.Sc.	01/05/2005	N/A
6.	CAPT. PAREEK PUNEET KUMAR	CAPTAIN	40	16	4854673	B.Sc.	14/12/2004	Indian Airforce
7.	CAPT. SINGH NIRMAL JEET	CAPTAIN	47	22	4886167	M.Sc.	14/12/2004	Indian Navy
8.	CAPT. GUPTA DHIRAJ RAI	CAPTAIN	49	24	4832963	M.Sc.	14/12/2004	Indian Airforce
9.	CAPT RAJ MENON	CAPTAIN	27	4	1260108	B.S.C.	05/01/2005	N/A
10.	CAPT PRASHANT SINGH	CAPTAIN	35	4	3165328	B.S.C.	01/06/2005	Indian Airforce
11.	CAPT. NAVIN BALA	CAPTAIN	33	4	4702641	H.S.C.	06/01/2005	Northwest Airlink USA
12.	CAPT K. S. ASALDEKAR	CAPTAIN	25	3	1233087	B.Com.	09/01/2006	N/A
13.	CAPT RAMESH KUMAR	CAPTAIN	49	3	4641433	B.A.	06/04/2006	BSF
14.	CAPT. S. S. KAPUR	CAPTAIN	43	12	1215000	B.S.C.	04/11/2005	Alliance Air
15.	CAPT. ARUN KOCHHAR	CAPTAIN	43	17	5263538	B.TECH.	11/04/2005	Air Sahara
16.	CAPT. DOGRA SHARAD RAMNATH	CAPTAIN	35	17	5331673	12th Science	12/04/2005	Air Sahara
17.	CAPT. S BALAKRISHNAN	CAPTAIN	46	23	4519964	B.Com.	02/03/2006	Indian Navy
18.	CAPT. SAMEER DOGRA	CAPTAIN	34	12	5207963	12th Science	01/03/2006	Air Sahara
19.	CAPT. PANKAJ BHARADWAJ	CAPTAIN	50	27	2828750	B.Sc.	02/03/2006	Indian Navy
20.	CAPT. A S GILL	CAPTAIN	59	13	4864518	M.B.A.	04/04/2006	Air Sahara
21.	CAPT. K SREENIVAS	CAPTAIN	44	12	3861422	Graduation (Hon)	14/07/2006	Indian Navy
22.	CAPT. ANAND KUMAR	CAPTAIN	39	16	4711891	B.Sc.	07/12/2006	Air Sahara
23.	CAPT. G. SIDHU	CAPTAIN	51	29	3106068	S.S.C.	13/07/2006	Alliance Air
24.	CAPT. R P SINGH	CAPTAIN	46	25	4712334	M.Sc.	10/03/2006	Indian Navy
25.	CAPT. SAMUEL AJIT J SESHIAH	CAPTAIN	50	28	4281656	B.Sc.	03/01/2007	Air Deccan
26.	CAPT. TARUN KAPOOR	CAPTAIN	45	24	4007205	B.Sc.	07/01/2007	Indian Navy
27.	CAPT. ALOK NAYAK	CAPTAIN	46	24	3536558	B.A.	07/01/2007	Indian Navy
28.	CAPT. AJU CHERIAN	CAPTAIN	48	20	4693920	B.Sc.	16/07/2007	Air Indigo
29.	CAPT. GAUTAM BANERJEE	CAPTAIN	39	18	4910476	B.Sc.	09/05/2007	Spice Jet
30.	CAPT VINEET SHARMA	CAPTAIN	40	17	1418086	AISSE, CBSCE	09/12/2008	Kingfisher
31.	CAPT TAPAS GUHA	TR CAPT	48	27	2121380	M.Sc.	01/10/2007	Air Force
32.	CAPT A K TIWARI	TR CAPT	60	40	1320081	M.Phill.	15/10/2007	Air Force
33.	CAPT A R NIGAM	TR CAPT	57	37	1742581	M.Phill.	15/10/2007	Air Force
34.	CAPT V S KAPANI	TR CAPT	59	38	1344626	H.S.C.	15/10/2007	Air Force
35.	CAPT S K GAHLAUT	TR CAPT	60	38	1404774	M.Sc.	15/10/2007	Air Force
36.	CAPT G S BHOGAL	TR CAPT	59	29	1407849	M.Sc.	15/10/2007	Air Force
37.	CAPT M BHANDARI	TR CAPT	58	36	1315986	M.Sc.	15/10/2007	Air Force
38.	CAPT ABHAY GUPTA	TR CAPT	58	35	346389	P.G. MILITARY	05/11/2007	Air Force
39.	CAPT D S JAIN	TR CAPT	54	32	2065937	M.Sc.	05/11/2007	Air Force
40.	CAPT K A KUMAR	TR CAPT	55	34	1385390	M.Sc.	05/11/2007	Air Force
41.	CAPT RAJESH SOBTI	TR CAPT	56	35	1846333	M.Sc.	05/11/2007	Air Force
42.	CAPT V S CHHIKARA	TR CAPT	52	31	1646125	B.A.	08/11/2007	Air Force
43.	CAPT N D AHUJA	TR CAPT	49	29	1076877	B.Sc.	12/11/2007	Air Force
44.	CAPT J S DHILON	TR CAPT	56	35	359643	M.Sc.	11/02/2008	Air Force
45.	CAPT JACOB PAUL	TR CAPT	54	33	342303	M.Phill.	11/02/2008	Air Force
46.	CAPT V K YAJURVEDI	TR CAPT	57	37	358214	M.Sc.	11/02/2008	Air Force
47.	CAPT R PRATAP	TR CAPT	57	37	1099308	M.Sc.	11/02/2008	Air Force
48.	CAPT S S HOTHI	TR CAPT	60	40	318571	N.D.A.	11/02/2008	Air Force

COMMENTS OF THE COMPTROLLER AND AUDITOR GENERAL OF INDIA UNDER SECTION 619(4) OF THE COMPANIES ACT, 1956 ON THE ACCOUNTS OF AIR INDIA CHARTERS LIMITED FOR THE YEAR ENDED 31 MARCH 2009.

The preparation of financial statements of **Air India Charters Limited** for the year ended 31 March 2009 in accordance with the financial reporting framework prescribed under the Companies Act, 1956 is the responsibility of the management of the company. The statutory auditors appointed by the Comptroller and Auditor General of India under Section 619(2) of the Companies Act, 1956 are responsible for expressing opinion on these financial statements under section 227 of the Companies Act, 1956 based on independent audit in accordance with the auditing assurance standards prescribed by their professional body the Institute of Chartered Accountants of India. This is stated to have been done by them vide their Audit Report dated 9 October 2009.

I, on the behalf of the Comptroller and Auditor General of India, have conducted a supplementary audit under section 619(3)(b) of the Companies Act, 1956 of the financial statements of **Air India Charters Limited** for the year ended 31st March 2009. On the basis of my audit nothing significant has come to my knowledge which would give rise to any comment upon or supplement to Statutory Auditors' report under section 619(4) of the Companies Act, 1956.

For and on the behalf of the
Comptroller and Auditor General of India

Sd/-
Sarit Jafa
Principal Director of Commercial Audit
& *ex-officio* **Member, Audit Board II, Mumbai**

Place : Mumbai
Date : 13 November 2009.

REPORT OF THE AUDITORS TO THE MEMBERS OF AIR INDIA CHARTERS LIMITED

1. We have audited the attached Balance Sheet of **Air India Charters Limited,** as at March 31, 2009, the Profit and Loss Account and the Cash Flow Statement for the year ended on that date annexed thereto. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

2. We conducted our audit in accordance with auditing standards generally accepted in India. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

3. As required by the Companies (Auditor's Report) Order, 2003 as amended by the Companies (Auditor's Report) (Amendment) Order, 2004 (the 'Order'), issued by the Central Government of India in terms of sub-section (4A) of Section 227 of the Companies Act, 1956, and on the basis of such checks as we considered appropriate and according to the information and explanations given to us, we annex hereto a statement on the matters specified in paragraphs 4 and 5 of the said Order.

4. ***As stated in Note 3 of Schedule T, during the year the Company has changed the accounting policies resulting into impact on profitability in respect of :***

   1. Recognizing revenue related to passenger

   The Company has changed the policy of recognizing revenue related to passenger from sales based on an estimate after deducting last five days of gross sales of the financial year to actual passengers flown during the year in accordance with the fundamental accounting assumption of accrual basis of accounting, Accounting Standard (AS-1) read with Accounting Standard (AS-9) and generally accepted accounting practices. Due to the above amendment, the loss is increased by Rs.91 Million

5. ***Attention is invited to***

   a) Method of providing depreciation

   Method of providing Depreciation on aircrafts and airframes equipments (737-800) has been changed during the year 2007-08 by considering the estimated life of aircraft as 20 years as against 17 years considered in earlier years, The CLB permission is awaited.

   b) As stated in Note 25 of Schedule T, the Company has not considered expenditure incurred for crew hotel and layover expenses as fringe benefits and accordingly not provided fringe benefit tax thereon. The impact of which is presently not ascertained.

   c) As stated in Note 10 of Schedule T, the Company is not to share the cost towards common facilities and services with effect from the year 2007-08. The impact of such costs, which is not ascertainable, would not be reflected in determining the profitability of the company.

   d) As per the resolution passed by the Board of Directors and as per the terms of amended MOU between NACIL (Holding Company) and AICL, the revenue earned by AICL will be shared in the ratio of 25% and 75% with effect from 1st April, 2005.

6. Further to our comments in the Annexure referred to in paragraph (3) above, we report that :

   a) We have obtained all the information and explanations, which to the best of our knowledge and belief were necessary for the purposes of our audit, ***except in respect of certain accounts as referred to Note 16 of Schedule T. The consequential effect of adjustments, if any, thereof is not presently quantifiable.***

b) In our opinion, proper books of account as required by law have been kept by the Company, so far as appears from our examination of the books maintained at Central Accounts Office of the Company, incorporating the returns received from the stations and reports received from outsourced agencies and found to be generally adequate for the purpose of audit;

c) The Balance Sheet, Profit and Loss Account and Cash Flow Statement dealt with by this report are in agreement with the books of account;

d) In our opinion, the Balance Sheet, Profit and Loss Account and Cash Flow Statement dealt with by this report comply with the Accounting Standards referred to in sub-section (3C) of Section 211 of the Companies Act, 1956***.;***

e) The company has taken a stand that it is a Government Company and hence the disqualification of Directors under the provisions of clause (g) of sub-section (1) of Section 274 of the Companies Act, 1956 in the light of Circular No.2/5/2001-CL-V: General Circular No.8/2002 dated 22nd March, 2002, is not applicable to it;

f) In our opinion and to the best of our information and according to the explanations given to us, the said accounts read together with the notes thereon give the information required by the Companies Act, 1956, in the manner so required and ***subject to paragraphs 4 and 5 above*** give a true and fair view in conformity with the accounting principles generally accepted in India:

   i) in the case of the Balance Sheet, of the state of affairs of the Company as at March 31, 2009;

   ii) in the case of the Profit and Loss Account, of the **Loss** of the Company for the year ended on that date; and

   iii) in the case of the Cash Flow Statement, of the cash flows for the year ended on that date.

For J.P.J. Associates
Chartered Accountants

Sd/-
Pravin R. Deshpande
Partner
Membership No. 045249

Place : New Delhi
Dated : 9 October 2009

ANNEXURE TO AUDITOR'S REPORT

Referred to in Paragraph (3) of our report of even date.

(i) (a) The Company has maintained proper records showing full particulars including quantitative details and situation in respect of Fixed Assets.

(b) The fixed assets of the Company have been physically verified by the management during the year at most locations. and in our opinion the frequency of verification is reasonable having regard to the size of the Company and the nature of its assets. However, in the absence of reconciliation between book records and physical count sheets, we are unable to ascertain whether the Physical Verification revealed any material discrepancy.

(c) There is no disposal of fixed assets during the year.

(ii) (a) The stock of inventory are held by the Holding Company (NACIL) and are certified by them and accepted as correct without verification.

(b) As certified by the Holding Company (NACIL), the procedures of physical verification of inventories followed by the management are reasonable and adequate in relation to the size of the Company and the nature of its business. We have relied on the certificate given by NACIL.

(c) As certified by the Holding Company (NACIL) and according to the information and explanations given to us, records of inventory is maintained by NACIL also as certified by NACIL, the discrepancies noticed on verification between the physical stocks and the book records were not material and have been properly dealt with in the books of account. We have relied on the certificate given by NACIL.

(iii) (a) The Company has not granted any loans, secured or unsecured to companies, firms or other parties covered in the register maintained under Section 301 of the Companies Act, 1956. Accordingly, sub-clause (b), (c) and (d) are not applicable.

(b) The Company, has not taken any loans, secured or unsecured from companies, firms or other parties covered in the register maintained under Section 301 of the Companies Act, 1956. Accordingly, sub clause (f) and (g) are not applicable.

(c) The company has been maintaining current account with the holding company M/s. NACIL wherein funds are regularly paid, received on on-account for inter company transactions basis during the year. As explained to us this current account is not in the nature of loan as referred in Note 7 (a).The year end balance in this account is credit balance of Rs.468.4 Million (previous year credit balance of Rs. 1741.5 Million).

(iv) In our opinion and according to the information and explanations given to us, there are adequate internal control systems commensurate with the size of the Company and the nature of its business with regard to purchases of fixed assets.

As regard inventory in view of the fact that procurement, consumption, physical custody is totally controlled by the Holding Company, hence we are unable to comment on the adequacy of internal control system of the same.

As regard to the sale of services, ***internal controls in the nature of monitoring of fare structure by the commercial department needs to be adequately documented as the documents are sold through internet in view of increase in business. Internal control in respect of refund of tickets needs to be strengthened.***

During the course of our audit, we have not observed any continuing failure to correct major weaknesses in internal control system, except as stated above.

The Company does not deal in Goods and hence the sale of goods does not apply except for a few items required to be sold as inflight services. The amount is not significant.

(v) (a) Based on the Audit procedures applied by us and according to the information and explanations given to us, we are of the opinion that there are no particulars of contracts or arrangements referred to in Section 301 of the Companies Act, 1956 that need to be entered in the register required to be maintained under that Section.

Hence, the question of commenting whether the transactions made in pursuant of such contracts or arrangements, were made at prices which are reasonable having regards to the prevailing market prices at the relevant time does not arise.

(vi) The Company has not accepted any deposits from public to which the provisions of Sections 58A, 58AA or any other relevant provisions of the Companies Act, 1956 and the Companies (Acceptance of Deposits) Rules, 1975 apply.

(vii) ***In our opinion, the internal audit function needs to be further strengthened including timely performance reporting, its compliance and extending the scope to cover major operational departments and major foreign stations so as to ensure effective control and to make it commensurate with the size and nature of its business***.

(viii) As per the information and explanation given to us, the Central Government has not prescribed the maintenance of cost records under Section 209(1)(d) of the Companies Act, 1956.

(ix) (a) According to the records of the Company and as per the information and explanations given to us, the Company is generally regular in depositing with appropriate authorities undisputed statutory dues including Provident Fund, Income tax, Sales tax, Service tax, Custom Duty, and other material statutory dues applicable to it except as stated below

In absence of proper linkage between deductions and deposits of income tax deducted at source and reconciliations of balances outstanding we are not in a position to offer any comments, including delay, if any

The Company has provided for the Fringe Benefit Tax based on estimated expenses for the year. The Company has not considered free passage to employees and hotel expenses on crew as fringe benefits and not provided Fringe Benefit Tax on it. In the absence of adequate information, we are unable to ascertain whether the Company has considered all other eligible heads of expenses for the purpose of determining the liability on account of fringe benefit.

The Company has either deducted at lower rate or not deducted income tax on certain payments or credits.

Pending Final decision of the competent authority and according to the information and explanation given to us, the company is not covered by the provisions of Laws relating to Investor Education and Protection Fund and Employees' State Insurance.

According to the information and explanations given to us, no undisputed amounts payable in respect of above were in arrears, as at March 31, 2009 for a period of more than six months from the date on which they became payable ***except profession tax of Rs.0.2 Millions, custom duties of Rs. 8.6 Millions.***

(b) According to the records of the Company and information and explanation given to us there are no dues outstanding in respect of Income tax, Wealth tax Service tax, cess or other statutory dues on account of any dispute ***except Rs 0.60 milions custome and excise department on fuel, Rs.10.98 million service tax on fees paid on ECB loans.***

(x) The accumulated losses (inclusive of deferred tax liability) of the Company, at the end of the financial year exceed fifty percent of its net worth. There are cash losses during the financial year covered by our audit and there were no cash losses during immediately preceding financial year.

(xi) In our opinion and according to the information and explanations given to us, the Company has not defaulted in repayment of dues to a financial institution or banks.

(xii) Based on our examination of the records and the information and explanations given to us, the Company has not granted any loans and advances on the basis of security by way of pledge of shares, debentures and other securities.

(xiii) In our opinion, the Company is not a chit fund or a nidhi/ mutual benefit fund/society. Therefore, the provisions of clause 4 (xiii) of the Order are not applicable to the Company.

(xiv) In our opinion, the Company is not dealing in or trading in shares, securities, debentures and other investments. Accordingly, the provisions of clause 4 (xiv) of the Order are not applicable to the Company.

(xv) The Company has not given any guarantee for loans taken by others from banks or financial institutions during the year.

(xvi) In our opinion and according to explanation given to us, the term loans have been applied for the purpose for which they were raised.

(xvii) According to the information and explanations given to us and on an overall examination of the Balance Sheet and cash flows of the Company we report that no funds raised on short-term basis have been used for long-term investment.

(xviii) According to the information and explanations given to us, the Company has not made any preferential allotment of shares to parties and companies covered in the register maintained under Section 301 of the Act.

(xix) The Company has not issued any debentures during the financial year and therefore the question of creating securities or charge in respect thereof does not arise.

(xx) The Company has not made any public issue and therefore the question of disclosing the end use of money does not arise.

(xxi) Based upon the audit procedures performed and according to the information and explanations given to us, we report that other than the following no major fraud on or by the Company has been noticed or reported during the year

Nature of Fraud	Amount of Fraud
Fraudulent Charge back on Credit card transactions by the customers after the travel (as certified by the Management)	***Rs. 2.8 Millions***

For J.P.J. Associates
Chartered Accountants

Sd/-
Pravin R. Deshpande
Partner
Membership No. 045249

Place : New Delhi
Dated : 9 October 2009

MANAGEMENT'S COMMENTS ON STATUTORY AUDITOR'S REPORT FOR THE FINANCIAL YEAR 2008-09.

Audit Para	Audit Observation	Management Comment
4.1	*The Company has changed the policy of recognizing revenue related to passenger from sales based on an estimate after deducting last five days of gross sales of the financial year to actual passengers flown during the year in accordance with the fundamental accounting assumption of accrual basis of accounting, Accounting Standard (AS-1) read with Accounting Standard (AS-9) and generally accepted accounting practices. Due to the above amendment, the loss is increased by Rs.91 Million.*	The above policy change was effected in the current financial year in order to assess revenue based on actual passengers flown during the year to be in accordance with the fundamental accounting assumption of accrual basis of accounting (AS1) read with (AS9). As this being the first year of adoption of new accounting policy, the change has an impact on revenue, as such loss for the year has increased by Rs. 91 Million due to change in policy. However, effective financial year 2009-10, there will be no such impact.
5.a	*Method of providing Depreciation on aircrafts and airframes equipments (737-800) has been changed during the year 2007-08 by considering the estimated life of aircraft as 20 years as against 17 years considered in earlier years, The CLB permission is awaited.*	With the acquisition of the latest state-of-art technology, Boeing 737 new aircraft into the fleet, from the year 2006 onwards, which have a longer life span and economic life as demonstrated by the manufacturer viz. Boeing, it is felt necessary, to amortize the cost of aircraft over a longer life span i.e. 20 years which is usually the retention period of aircraft. The OEM, M/s. Boeing, have indicated that the life of aircraft could be up to 30 years and also confirmed that the structure is designed to a long crack initiation life, so that airplanes can be operated economically without the burden of unscheduled maintenance. The company has referred the matter to Ministry of Corporate Affairs to revise the rates.
5.b	*As stated in Note 25 of Schedule T, the Company has not considered expenditure incurred for crew hotel and layover expenses as fringe benefits and accordingly not provided fringe benefit tax thereon. The impact of which is presently not ascertained.*	The Fringe Benefit Tax (FBT) does not include expenditure incurred for crew hotel and layover during their course of duty. An expert opinion has been obtained.
5.c & d	*As stated in Note 10 of Schedule T, the Company is not to share the cost towards common facilities and services with effect from the year 2007-08. The impact of such costs, which is not ascertainable, would not be reflected in determining the profitability of the company.* *As per the resolution passed by the Board of Directors and as per the terms of amended MOU between NACIL (Holding Company) and AICL, the revenue earned by AICL will be shared in the ratio of 25% and 75% with effect from 1st April, 2005.*	The Company is sharing 25% of its revenue with its Holding Company, as per MOU effective 1st April, 2007 and approval of the Board.

MANAGEMENT'S COMMENTS ON ANNEXURE TO AUDITOR'S REPORT

Audit Para	Audit Observation	Management Comment
i (b)	The fixed assets of the Company have been physically verified by the management during the year at most locations and in our opinion the frequency of verification is reasonable having regard to the size of the Company and the nature of its assets. However, in the absence of reconciliation between book records and physical count sheets, we are unable to ascertain whether the Physical Verification revealed any material discrepancy.	Fixed Assets Register is now being complied asset-wise in the ERP system location wise and the same will be reconciled with the physical verification sheet.
iv.	As regard to the sale of services, *internal controls in the nature of monitoring of fare structure by the commercial department needs to be adequately documented as the documents are sold through internet in view of increase in business. Internal control in respect of refund of tickets needs to be strengthened.*	Commercial Dept have now been requested to maintain records of fare approvals. Internal controls in respect of refunds will also be further strengthened.
ix.	*In absence of proper linkage between deductions and deposits of income tax deducted at source and reconciliations of balances outstanding we are not in a position to offer any comments, including delay, if any. The Company has either deducted at lower rate or not deducted income tax on certain payments or credits.*	Reconciliation is a continuous process and with the introduction of new system the differences have now been reduced during the current year. Circulars will be sent to all stations in order to have uniformity in deduction of TDS. Also possibility will be explored to centralize the payment of TDS at the HQ level to have a better control.
xxi.	*Fraudulent Charge back on Credit card transactions by the customers after the travel Rs. 2.8 Million.*	Web Sales of the company amount to approx. 29% of sales. As these transactions are through credit card the risk perception of chargeback exists. Measures have been taken by the management to strengthen the internet portal through appropriate software and international credit card transaction profiling agencies to reduce the incidence of such frauds. Due to this, fraudulent Charge Backs have reduced by 90% during the year, inspite of increase in Web-Sales. The Charge Back for financial year 2008-09 is approx. 28 lacs on web-sale of Rs.523 crores as against 279 lacs on web-sale ofRs.411 crores in 2007-08.

BALANCE SHEET AS AT MARCH 31, 2009

(Rupees in Million)

Particulars	Schedule	March 31, 2009		March 31, 2008	
I. SOURCES OF FUNDS :					
Shareholders' Funds :					
a) Capital	A		**300.0**		300.0
Loan Funds :					
a) Secured Loans	B		**27,553.1**		18,895.6
b) Unsecured Loans	C		**10,514.4**		5,385.0
TOTAL			**38,367.5**		24,580.6
II. APPLICATION OF FUNDS :					
Fixed Assets :	D				
a) Gross Block		**35,253.0**		22,884.7	
Less : Depreciation		**2,569.2**		1,028.6	
b) Net Block		**32,683.8**		21,856.1	
c) Capital Work-in-Progress		**2,586.5**		4,023.7	
			35,270.3		25,879.8
Current Assets, Loans and Advances :					
a) Inventories	E	**397.4**		283.5	
b) Sundry Debtors	F	**287.3**		407.4	
c) Cash and Bank Balances	G	**188.9**		160.2	
d) Other Current Assets	H	**1.3**		0.7	
e) Loans and Advances	I	**1,562.5**		916.8	
		2,437.4		1,768.6	
Less : Current Liabilities and Provisions	J				
a) Current Liabilities		**2,848.9**		3,105.3	
b) Provisions		**31.3**		23.1	
		2,880.2		3,128.4	
Net Current Assets			**(442.8)**		(1,359.8)
Profit and Loss Account	K	**3,456.6**			60.6
Add Impact on account of notification amending		**83.4**			-
AS11 Refer note			**3,540.0**		60.6
TOTAL			**38,367.5**		24,580.6
Significant Accounting Policies	S				
Notes to Accounts	T				

The Schedules referred to herein above form an integral part of the Balance Sheet.
This is the Balance Sheet referred to in our report of even date.

For J.P.J. Associates
Chartered Accountants

For and on behalf of the Board

Sd/-
Pravin R. Deshpande
Partner
M. No. 045249

Sd/-
Arvind Jadhav
Chairman

Sd/-
L. Raja Sekhar Reddy
Director

Sd/-
Aditi Khandekar
Company Secretary

Place : New Delhi
Date : 9 October 2009

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED MARCH 31, 2009

(Rupees in Million)

Particulars	Schedule	2008 - 09		2007 - 08	
I. Revenue :					
1. Traffic	L				
i) Scheduled Services		**12,849.9**		8,026.7	
ii) Others		**574.3**	**13,424.2**	452.0	8,478.7
2. Handling, Servicing and Incidental	M		**309.0**		270.3
Operating Revenue			**13,733.2**		8,749.0
3. Other (Net)	N		**430.3**		2,854.1
Total Revenue I			**14,163.5**		11,603.1
II. Expenses :					
1. Payments to and Provisions for Employees including Crew Allowances	O		**1,054.6**		670.9
2. Fuel and Oil - Aircraft			**7,789.1**		4,806.8
3. Insurance - Aircraft			**120.7**		88.0
4. Navigation, Landing, Housing and Parking			**931.4**		667.7
5. Hire and Lease Rental Charges - Aircraft			**1,583.1**		1,443.2
6. Handling Charges			**1,283.1**		596.3
7. Material Consumed - Aircrafts			**156.5**		88.5
8. Outside Repairs - Aircrafts			**193.0**		286.0
9. Passenger Amenities			**225.2**		150.8
10. Commission (Net)			**135.8**		106.6
11. Communication Charges :					
i) Reservation Systems		**13.3**		15.2	
ii) Others		**7.3**	**20.6**	2.6	17.8
12. Travelling Expenses :					
i) Crew		**195.0**		105.8	
ii) Others		**45.8**	**240.8**	46.9	152.7
13. Depreciation			**1,535.5**		865.9
14. Other Expenses	P		**517.0**		349.5
Total Operating Expenses II			**15,786.4**		10,290.7
III. Profit before Interest, Prior Period Adjustments, Extraordinary Items and Taxation I-II			**(1,622.9)**		1,312.4
Interest and Finance Charges	Q	**1,699.8**		1,411.0	
Prior Period Adjustments (Net)	R	**80.2**		4.1	
			1,780.0		1,415.1
IV. Profit/(Loss) before Taxation			**(3,402.9)**		(102.7)
Less : Provision for Taxation					
i) Current Tax					
ii) Earlier Years		**-**		(0.2)	
iii) Wealth Tax		**-**		0.1	
iv) Fringe Benefit Tax		**2.7**		1.7	
Deferred Tax		**(9.6)**	**(6.9)**	(763.7)	(762.1)
V. Profit/(Loss) after Taxation			**(3,396.0)**		659.4
Balance Brought Forward			**(60.6)**		(720.0)
VI. Balance Carried Forward to Balance Sheet			**(3,456.6)**		(60.6)

Basic and Diluted Earning per Share of Rs.100 each. Refer Note No. 17	
Significant Accounting Policies	**S**
Notes to Accounts	**T**

The Schedules referred to herein above form an integral part of the Profit and Loss Account.
This is the Profit and Loss Account referred to in our report of even date.

For J.P.J. Associates
Chartered Accountants

For and on behalf of the Board

Sd/-
Pravin R. Deshpande
Partner
M. No. 045249

Sd/-
Arvind Jadhav
Chairman

Sd/-
L. Raja Sekhar Reddy
Director

Sd/-
Aditi Khandekar
Company Secretary

Place : New Delhi
Date : 9 October 2009

CASH FLOW STATEMENT FOR THE YEAR ENDED MARCH 31, 2009

(Rupees in Million)

Particulars	2008-09		2007-08	
A. CASH FLOW FROM OPERATING ACTIVITIES :				
Net Profit/(-) Loss Before Taxation		**(3402.9)**		(102.8)
ADJUSTMENTS FOR :				
Depreciation	**1535.5**		865.9	
Unrealized Exchange Rate Difference	**(142.2)**		(57)	
Interest Expenses	**1604.2**		1330.1	
Taxes Paid	**0.2**		0.0	
Provision for Gratuity	**2.1**		1.7	
Provision for Leave Encashment	**3.6**		2.0	
Provision Written Back	**(0.1)**		(267.7)	
Interest on Bank & Other Deposits	**(2.0)**		(0.9)	
		3001.3		1874.1
Cash Surplus / (-) Defecit Before Variation in Net Working Capital		**(401.6)**		1771.3
Changes in Working Capital				
(-) Increase / Decrease in Sundry Debtors	**120.0**		(43.2)	
(-) Increase / Decrease in Loans & Advances	**(645.9)**		181.6	
(-) Increase / Decrease in Other Current Assets	**(0.6)**		(0.7)	
(-) Increase / Decrease in Inventories	**(113.8)**		(192.3)	
Increase / (-) Decrease in Current Liabilities & Provisions	**(256.5)**		2139.6	
		(896.8)		2085.0
Net Cash (-) Outflow/Inflow from Operations		**(1298.4)**		3856.3
B. CASH FLOW FROM INVESTING ACTIVITIES :				
Purchase of Fixed Assets	**(10931.5)**		(9910.7)	
Interest on Bank & Other Deposits	**2.0**		0.9	
Net Cash (-) Outflow/Inflow from Investing Activities		**(10929.5)**		**(9909.8)**
C. CASH FLOW FROM FINANCING ACTIVITIES				
Net Cash (-) Outflow/Inflow from Financing Activities				
Interest Expenses	**(1604.2)**		(1330.1)	
Increase / (Decrease) of Secured Loans	**8657.5**		13753.4	
Increase / (Decrease) of Unsecured Loans	**5129.4**		(6643.5)	
		12182.7		5779.8
Net Increase / (-) Decrease in Cash & Cash Equivalents		**(45.2)**		(273.7)
Unrealized Exchange Rate Difference		**142.2**		57.0
Impact of AS-11		**(68.3)**		0.0
Add : Cash at the beginning of the year		**160.2**		376.9
Cash at the end of the year		**188.9**		160.2

This is the Cash Flow referred to in our report of even date.

1. Cash and cash equivalent for the year ended 31 March 2009 include unrealised gain (Net) of Rs.58.3 Million (Previous Year Loss of Rs.21.6 Million) on account of translation of foreign currency bank balances.
2. Cash and cash equivalent includes Fixed Deposits of Rs.23.9 Million (Previous Year Rs.14.2 Million) which are not available for free use due to Lien.

For J.P.J. Associates
Chartered Accountants

For and on behalf of the Board

Sd/-
Pravin R. Deshpande
Partner
M. No. 045249

Sd/-
Arvind Jadhav
Chairman

Sd/-
L. Raja Sekhar Reddy
Director

Sd/-
Aditi Khandekar
Company Secretary

Place : New Delhi
Date : 9 October 2009

SCHEDULES ATTACHED TO AND FORMING PART OF THE BALANCE SHEET

SCHEDULE : "A" : CAPITAL

(Rupees in Million)

Particulars	March 31, 2009	March 31, 2008
AUTHORISED		
3 Million Equity Shares of Rs. 100 each	**300.0**	300.0
ISSUED, SUBSCRIBED AND PAID UP		
3 Million Equity shares of Rs.100 each fully paid up (The entire Share Capital is held by National Aviation Company of India Ltd. A company formed under the Companies Act, 1956 and its Nominees)	**300.0**	300.0
	300.0	300.0

SCHEDULE : "B" : SECURED LOANS

(Rupees in Million)

Particulars	March 31, 2009	March 31, 2008
Foreign Currency Loans from Banks	**27,553.1**	18,895.6
(Secured by Corporate Guarantee / Letter of comfort issued by Holding Company - National Aviation Company of India Ltd. / Assignment of purchase Agreement / Mortgage of 14 B737-800 aircrafts.		
Amounts repayable within One Year Rs.4095.6 Million		
	27,553.1	18,895.6

SCHEDULE : "C" : UNSECURED LOANS

(Rupees in Million)

Particulars	March 31, 2009	March 31, 2008
From Banks (Repayable within One Year)	**10,514.4**	5,385.0
	10,514.4	5,385.0

SCHEDULE : "D" : FIXED ASSETS

(Rupees in Millions)

PARTICULARS	GROSS BLOCK (AT COST)				DEPRECIATION				NET BLOCK	
	As at April 1, 2008	Additions during the year	Deductions during the year	As at March 31, 2009	As at April 1, 2008	For the year	On Adjustments	Upto March 31, 2009	As at March 31, 2009	As at March 31, 2008
A. AIRCRAFT FLEET & EQUIPMENT										
1. B737-800 Aircarft	21097.7	11535.3	-	**32633.0**	922.3	1411.9	-	**2334.2**	**30298.8**	20175.4
2. B737-800 Spares Engines & QEC Kits	656.5	683.8	-	**1340.3**	22.0	66.2	-	**88.2**	**1252.1**	634.5
3. Aero Engine Equipment Rotables	50.1	4.6	-	**54.7**	3.8	2.6	-	**6.4**	**48.3**	46.2
4. Airframe Equipment Rotables	1060.9	122.9	3.8	**1180.0**	77.1	56.1	(0.4)	**132.8**	**1047.2**	983.8
SUB TOTAL "A"	22865.2	12346.6	3.8	**35208.0**	1025.2	1536.8	(0.4)	**2561.6**	**32646.4**	21839.9
B. OTHER ASSETS										
1. Vehicles	5.8	1.9	-	**7.7**	0.8	0.7	-	**1.5**	**6.2**	5.0
2. Plant and Machinery	0.1	-	-	**0.1**	0.1	-	-	**0.1**	**0.0**	0.1
3. Furniture and Fixtures	2.5	0.3	-	**2.8**	0.8	0.1	-	**0.9**	**1.9**	1.7
4. Office Appliances and Equipment	1.5	0.3	-	**1.8**	0.1	0.1	-	**0.2**	**1.6**	1.4
5. Computer Systems	5.0	3.7	-	**8.7**	1.0	1.6	-	**2.6**	**6.1**	4.0
6. Ramp Equipments	4.6	13.7	-	**18.3**	0.6	1.3	-	**1.9**	**16.4**	4.0
7. Electric Fittings	-	-	-	**0.0**	-	-	-	**0.0**	**0.0**	0.0
8. Workshop Equipments	-	5.6	-	**5.6**	-	0.4	-	**0.4**	**5.2**	-
SUB TOTAL "B"	19.5	25.5	0.0	**45.0**	3.4	4.2	0.0	**7.6**	**37.4**	16.2
GRAND TOTAL	22884.7	12372.1	3.8	**35253.0**	1028.6	1541.0	(0.4)	**2569.2**	**32683.8**	21856.1
Previous Year	12407.1	10477.6	-	22884.7	162.7	890.2	(24.3)	1028.6	21856.1	12244.4
Capital Work in Progress									**2586.5**	**4023.7**
								TOTAL	**35270.3**	**25879.8**

Note 1) : Capital Work in Progress includes Rs.1958.5 Million as advance for purchase of aircraft (Prev. Year Rs.3409.9 Million).

Note 2) : Aircraft Fleet and Equipment includes 14 B737-800 (Registration No. VT-AXH, AXI, AXJ, AXM, AXN, AXP, AXQ, AXR, AXT, AXU, AXW, AXX, AXY and AXZ) acquired on finance lease in 2007-08 and 2008-09. Gross Block : Rs.32633.0 Million (P.Y. Rs.21097.7 Million), Depreciation : Rs.2334.2 Million (P.Y. Rs.922.3 Million), Net Block : Rs.30298.8 Million (P.Y. Rs.20175.4 Million). Future Lease rental obligations aggregate to Rs.25730.2 Million (P.Y. Rs.15749.5 Million) for which liability of an equal amount is included in the year-end balance of Foreign Currency Loans from Banks.

Note 3) : AS-11 Impact

(Rupees in Million)

Particulars	**For the year March 31, 2009**	For the year March 31, 2008
Depreciation for the year as above	**1541.0**	890.02
Less : Depreciation on capitalisation of Exchange Difference Gain of previous year included above (Refer Note 3b of Schedule T)	**5.5**	0
Depreciation as per Profit and Loss Account	**1535.5**	890.02

SCHEDULE : "E" : INVENTORIES

(Rupees in Million)

Particulars	March 31, 2009	March 31, 2008
Stores and Spare Parts (Refer Note No.7a of Schedule T)	**397.4**	283.5
	397.4	283.5

SCHEDULE : "F" : SUNDRY DEBTORS

(Rupees in Million)

Particulars	March 31, 2009	March 31, 2008
SECURED		
Debts Outstanding for a period exceeding Six Months	-	-
Other Debts (Secured by Bank Guarantee)	**209.9**	190.4
i)	**209.9**	190.4
UNSECURED		
Considered Good		
Debts Outstanding for a period exceeding Six Months Due from holding company NACIL Rs.13.8 Million (P.Y. Rs.119.7 Million)	**13.8**	120.0
Other Debts Due from holding company NACIL Rs.31.12 Million (P.Y. Rs.23.4 Million)	**63.6**	97.0
ii)	**77.4**	217.0
Total i) + ii)	**287.3**	407.4

SCHEDULE : "G" : CASH AND BANK BALANCES

(Rupees in Million)

Particulars		March 31, 2009	March 31, 2008
1. Cash on Hand	I	**1.0**	2.0
2. Balances with Banks :			
a) In Current Accounts with Scheduled Banks		**(84.5)**	16.1
b) In Current Accounts with Non-Scheduled Banks*		**248.5**	127.9
c) In Deposit Accounts with Scheduled Banks		**23.9**	14.2
	II	**187.9**	158.2
Total	**I + II**	**188.9**	160.2

*** CURRENT ACCOUNTS WITH NON-SCHEDULED BANKS**

(Rupees in Million)

Name of the Bank & Station	Balance as on March 31, 2009	Maximum Balance During the year
Citibank Mother A/C - Dubai	**51.6**	165.9
Citibank Expenditure A/C - New York	**162.6**	1728.5
DBS Bank Collection A/C - Singapore	**34.3**	102.0

SCHEDULE : “H” : OTHER CURRENT ASSETS

(Rupees in Million)

Particulars	March 31, 2009	March 31, 2008
Interest Accrued on Deposits	**1.3**	0.7
	1.3	0.7

SCHEDULE : “I” : LOANS AND ADVANCES

(Rupees in Million)

Particulars	March 31, 2009	March 31, 2008
Uusecured and considered good		
i) Advances Recoverable in Cash or in Kind or for Value to be received (Net) Considered Good	**1491.8**	873.3
ii) Advance Payment of Taxes and Tax Deducted at Sources	**70.7**	43.4
iii) Staff Advances - Unsecured : Considered Good	**-**	0.1
	1562.5	916.8

SCHEDULE : “J” : CURRENT LIABILITIES AND PROVISIONS

(Rupees in Million)

Particulars	March 31, 2009	March 31, 2008
A. CURRENT LIABILITIES :		
i) Sundry Creditors (Includes Rs.448.7 Million due to NACIL)	**1892.4**	888.5
ii) Advances from Customers	**345.2**	213.5
iii) Other Liabilities (Net)	**142.7**	261.8
iv) Due to Holding Company - National Aviation Company of India Ltd.	**468.6**	1741.5
	2848.9	3105.3
B. PROVISIONS FOR :		
i) Taxation	**18.5**	16.0
ii) Gratuity	**6.3**	4.2
iii) Leave Encashment	**6.5**	2.9
	31.3	23.1
	2880.2	3128.4

SCHEDULE : “K” : PROFIT AND LOSS ACCOUNT

(Rupees in Million)

Particulars	March 31, 2009	March 31, 2008
Balance B/F	**(60.6)**	(720.0)
Profit / (Loss) for the year	**(3396.0)**	659.4
Balance carried to Balance Sheet	**(3456.6)**	(60.6)

SCHEDULES ATTACHED TO AND FORMING PART OF THE PROFIT AND LOSS ACCOUNT

SCHEDULE : "L" : TRAFFIC REVENUE

(Rupees in Million)

Particulars	2008-09	2007-08
SCHEDULED SERVICES		
1. Passenger	**16849.5**	12642.0
2. Excess Baggage	**140.2**	117.7
3. Cargo	**142.0**	73.9
4. Mail	**1.5**	1.6
	17133.2	12835.2
Less : Revenue Sharing with National Aviation Company of India Ltd. (Previous year includes Rs.1599.7 Million for 2006-07)	**(4283.3)**	(4808.5)
Net Revenue I	**12849.9**	8026.7
OTHERS		
1. Charter - TDS Rs.11.0 Million (Previous year Rs.7.3 Million)	**484.0**	357.0
2. Block Seat Arrangement	**90.3**	95.0
II	**574.3**	452.0
Total I + II	**13424.2**	8478.7

SCHEDULE : "M" : HANDLING, SERVICING AND INCIDENTAL REVENUE

(Rupees in Million)

Particulars	2008-09	2007-08
1. Handling and Servicing - Other TDS Rs.8.8 Million (Previous year Rs.14.0 Million)	**92.5**	127.5
2. Incidental	**55.7**	25.3
3. Transaction Fees	**160.8**	117.5
	309.0	270.3

SCHEDULE : "N" : OTHER REVENUE

(Rupees in Million)

Particulars	2008-09	2007-08
1. Interest Income :		
i) On Deposits and Loans - Banks TDS Rs.0.4 Million (Previous year Rs.0.2 Million)	**1.8**	0.9
ii) Others	**0.2**	-
2. Provision No Longer Required	**0.1**	3.0
3. Royalty paid during 2006-07 reversed	**-**	1599.7
4. Operational Support Credits	**428.2**	540.1
5. Insurance Claims	**-**	229.2
6. Maintenance Reserve written back	**-**	264.7
7. Exchange Rate Variation	**-**	216.5
	430.3	2854.1

SCHEDULE : "O" : PAYMENTS TO AND PROPVISIONS FOR EMPLOYEES

(Rupees in Million)

Particulars	2008-09	2007-08
1. Salaries, Wages, Bonus and Gratuity	**473.6**	327.1
2. Crew Allowances	**465.0**	326.3
3. Contribution to Provident and Other Funds	**7.2**	6.7
4. Staff Welfare Expenses	**5.8**	10.1
5. Staff Training Expenses	**103.0**	0.7
	1054.6	670.9

SCHEDULE : "P" : OTHER EXPENSES

(Rupees in Million)

Particulars	2008-09	2007-08
1. Rates and Taxes	**12.9**	0.8
2. Rent	**9.8**	4.0
3. Repairs to :		
i) Buildings	**1.2**	1.5
ii) Others	**1.8**	14.8
4. Hire of Transport	**33.6**	42.0
5. Electricity and Heating Charges	**0.7**	0.1
6. Publicity and Sales Promotion	**22.0**	14.4
7. Printing and Stationery	**7.2**	4.2
8. Legal Charges	**0.8**	0.2
9. Auditors' Remuneration and Expenses	**0.4**	0.2
10. Expenses on Block Seat Arrangements	**85.8**	90.2
11. Exchange Rate Variation	**99.0**	-
12. Loss on Scrappage of Rotables	**3.5**	-
13. Consumption - Non Aircraft	**52.8**	7.3
14. Service Tax	**122.9**	116.3
15. Chargeback Account	**2.8**	28.0
16. Miscellaneous Expenses	**59.8**	25.5
	517.0	349.5

SCHEDULE : "Q" : INTEREST & FINANCE CHARGES

(Rupees in Million)

Particulars	2008-09	2007-08
1. Interest on Term Loans :		
a) Aircraft Loans	**840.0**	982.0
b) Other Interest	**764.2**	348.1
2. Finance Charges	**95.6**	80.9
	1699.8	1411.0

SCHEDULE : "R" : PRIOR PERIOD ADJUSTMENTS

(Rupees in Million)

Particulars	2008-09	2007-08
1. Passenger & Excess Baggage Revenue	**(1.8)**	2.9
2. Staff Training Expenses to 3rd Parties	**82.2**	-
3. Overflying Charges	**0.5**	-
4. Licence Fees for Foreign Pilots	**0.6**	-
5. Overriding Commission	**3.9**	-
6. Landing, Housing and Parking	**6.6**	-
7. Salaries / Staff Welfare Expenses	**-**	0.8
8. Hire and Lease Rental Charges	**-**	0.4
9. Guarantee Fees	**(0.2)**	-
10. Royalty paid during 2005-06 reversed	**(996.3)**	-
11. Revenue Sharing with NACIL for 2005-06	**996.3**	-
12. Excess Credit by Bank written back	**(12.2)**	-
13. Others (Net)	**0.6**	-
	80.2	4.1

SCHEDULE - "S" : SIGNIFICANT ACCOUNTING POLICIES :

1. **SIGNIFICANT ACCOUNTING POLICIES :**

i. **Accounting Convention :**

These Accounts have been prepared with the going concern concept on accrual basis under historical cost convention, except as specifically stated, and are in compliance with generally accepted accounting principles and the Accounting Standards referred to in Section 211 (3C) of the Companies Act, 1956.

ii. **Use of Estimates :**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumption that affect the reported amounts of assets and liabilities and disclosure of contingent liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period particularly in respect of major items such as Traffic Revenue, Provisions for liabilities, Depreciation, Obsolescence, Doubtful Debts and Advances and the Contingent liabilities. Difference between the actual results and estimates are recognized in the period in which results are known / materialised.

iii. **Fixed Assets and Depreciation:**

(a) Fixed Assets are stated at historical cost.

(b) (i) Aircraft Fleet and Equipment are stated at purchase price. Other incidental costs including interest wherever applicable are also capitalized up to the date of first commercial flight.

(ii) Other Assets including aircraft rotables are capitalized and stated at historical cost.

(c) Aircraft fleet and equipment under leases, in respect of which substantially all the risks and rewards of ownership are transferred to the company are considered as Finance lease and are capitalized.

(d) Credits allowed by the Manufacturers / Vendors are reviewed and evaluated by the Company and directly identifiable credits are adjusted towards the Cost of the Asset. Other credits in the nature of Operational Support are credited to the Profit & Loss Account.

(e) Depreciation on Fixed Assets is provided on Straight Line Method at the rates and in the manner prescribed in Schedule XIV to the Companies Act, 1956 on dates/month put to use except for the following :

(i) The new generation 737-800 aircraft are depreciated up to 95% of the block value over 20 years.

(ii) 'Airframe Equipment–Rotables' & `Aero Engine Equipment–Rotables' relating to aircraft are also depreciated up to 95% of the base value over the remaining average useful life of the fleet (737-800 aircraft is estimated as 20 years)

The Company has applied to the Ministry of Company Affairs to provide depreciation on the new generation aircraft at the above mentioned rates and Company Law Board permission is awaited.

(f) Depreciation on additions to other fixed assets is provided for the full year in the year of capitalization and no depreciation is provided in the year of disposal.

(g) Assets of small value not exceeding Rs.5000 in each case are charged off to revenue by debiting "Assets of small value charged off".

(h) The Exchange difference on Foreign Currency long term borrowing relating to acquisition of depreciable assets is depreciated over the remaining useful life of related asset including the year in which such exchange difference arises.

iv. **Impairment of Assets :**

The carrying value of Fixed Asset are reviewed for impairment at each Balance Sheet date to determine whether there is any indication of impairment.

If the carrying value of a Fixed Asset exceeds its estimated recoverable amount an impairment loss is recognized in the Profit & Loss Account and the Fixed Assets are written down to their recoverable amount.

v. **Inventory :**

(a) Spare parts stores and tools are valued at cost on weighted average basis.

(b) Obsolescence relating to 737-800 fleet is made only on non moving inventory for a period exceeding 5 years upto completion statutory life of a particular fleet of aircraft.

(c) Obsolescence provision for non-aircraft stores and spares is made to the extent of non-moving inventory for a period exceeding five years.

vi. **Foreign Currency Translation :**

(a) **Current Assets and Current Liabilities :**

Foreign currency denominated current assets and current liabilities balances at the year-end are translated at the year-end exchange rate circulated by Foreign Exchange Dealers Association of India (FEDAI), and the gains / losses arising out of fluctuations in exchange rates are recognized in the Profit and Loss Account.

(b) **Foreign Currency Loans :**

The outstanding balances of foreign currency loans (including loans availed for acquisition of assets) at the year end are translated at FEDAI Closing rates.

The company has opted for accounting the exchange differences arising on reporting of long term foreign currency monetary items in line with Companies (Accounting Standards) Amendment Rules 2009 relating to Accounting Standard 11 (AS11) notified by Government of India on 31st March, 2009. Accordingly the effect of exchange differences on foreign currency loans of the Company is accounted by addition or deduction to the cost of the assets so far it relates to depreciable capital assets and in other cases by transfer to "Foreign Currency Monetary Items Translation Difference Account" to be amortised over the balance period of the long term monetary items or 31st March, 2011 whichever is earlier. Exchange difference recognized in the Profit and Loss Account up to last financial year ended 31st March, 2008 relating to said long term monetary items in foreign currency has been adjusted against opening debit balance in P/L Account as provided in the rules.

(c) **Revenue and Expenditure Translations :**

1. Based on the exchange rates published by the IATA, exchange rates are established for translating the foreign currency revenue and expenditure transactions during the year and the exchange differences are transferred to the Profit & Loss Account.

2. Interline settlement with Airlines for transportation is carried out at the exchange rate published by IATA for respective month.

vii. **Revenue Recognition :**

(a) Pax Revenue is recognized on flown basis. At year end, the value of advance pax sales is assessed as forward sales. Subsequent refunds/unclaimed tickets has been recognized in year of refund/cancellation.

(b) Handling charges are shown Net of Service Tax.

(c) The Pool Revenue is accounted on an accrual basis as per the arrangements with the airlines concerned.

(d) The services are accounted for on actual services rendered.

viii. **Operating Leases :**

(a) Leases where assets are acquired without an option to purchase, are considered as operating leases and lease rentals payable for the year are charged to Profit and Loss Account.

(b) Contributions made to lessors on account of Maintenance Reserve for which maintenance is expected to arise during the lease period is treated as a Prepaid Expense. These contributions are expensed whenever the maintenance expenditure arises or at the end of the expiry of the lease period.

ix. **Borrowing Cost :**

(a) Borrowing costs that are directly attributable to acquisition, construction or production of qualifying assets including capital work in progress are capitalized upto the time the asset gets ready for its intended use.

(b) Borrowing cost other than stated above is treated as period cost.

x. **Retirement Benefits** :

(a) Short term employees benefits are recognized as an expense at the undiscounted amount in the Profit and Loss Account of the year in which the related service is rendered.

(b) Post employment benefits are recognized as an expense in the Profit and Loss Account for the year in which employee has rendered services. The estimated liability on account of long term benefits is discounted to the current value using the yield on government bonds as the discounting rate.

(c) Actuarial gains and losses in respect of post employment and other long term benefits are charged to the Profit and Loss Account.

xi. **Other Liabilities** :

Liabilities, which are more than three years old, are reversed unless such liabilities are specifically known to be payable in the future.

xii. **Taxes on Income** :

Provision for current tax is made in accordance with the provisions of the Income Tax Act, 1961.

Deferred tax is recognized on timing differences between book and taxable profit using the tax rates and laws that have been enacted or substantively enacted as on the Balance Sheet date. The Deferred tax assets are recognized and carried forward to the extent that there is a virtual certainty that the assets will be realised in the future.

xiii **Provisions and Contingent Liabilities** :

Provisions are recognized in the accounts in respect of present probable obligations, the amount of which can be reliably estimated.

Contingent liabilities are not provided for and are stated by way of notes to accounts. Contingent liabilities are disclosed in respect of possible obligations that arise from past events but their existence is confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Company.

xiv. **Prior Period Items** :

The Income and Expense which arise in the current period as a result of errors and omissions in preparation of financial statements of one or more prior period are considered as Prior Period Items and are shown separately in the financial statements.

xv. **Cash Flow Statement** :

Cash flows are reported using the indirect method, whereby profit before tax is adjusted for the effects of transactions of a non-cash nature and any deferrals or accruals of past or future cash receipts or payments. The cash flows from regular operating, financing and investing activities of the company are segregated.

SCHEDULE - “T” : NOTES TO ACCOUNTS :

1. **Contingent Liability** :

a) The Company has employed various staff on Contractual basis and hence there is a Contingent Liability to the extent of the unexpired contract period. The amount for the same cannot be ascertained.

b) The Company has received notices from Customs and Excise Department towards applicability of duty on consumption of fuel on domestic flights. The Company has accounted the claims for the same during the financial year. However, the demand for interest amounting to Rs. 0.6 Million has been disputed.

c) The Company has also received notices from Directorate General of Central Excise Intelligence, on applicability of Service Tax on various fees paid on External Commercial borrowings (ECB) loans. The Service Tax liability for 2008-09 is Rs.10.98 Million has not been provided as the company has referred the matter to the Ministry to waive the demand.

d) Letter of Credits issued by the Bank outstanding amounting to Rs.608.60 million.

2. **Capital Commitments :**

a) Aircraft Projects :

Capital Commitments are in respect of estimated amount of contracts remaining to be executed on Capital Account (Net of Advances) Rs.6,564.4 Million (Previous Year : Rs. 9132.75 Million).

b) Trivandrum Hangar Project in respect of equipments being procured Rs. 192.18 Millions (Previous Year - NIL).

3. **Change in Accounting Policies :**

(a) The revenue on account of passenger sales effective financial year 2008-09 is recognized based on actual flown passengers in the company has started recognizing revenue based on actual flown in accordance with fundamental accounting assumption on accrual basis of Accounting Standards (AS1) read with AS-9 as against recognizing revenue after deducting advance passenger receipts (based on last five days Gross Sales accounted till the financial year 2007-08). Due to the above change the loss is overstated by Rs. 91 Million.

(b) Consequent to the notification issued by the Ministry of Corporate Affairs, amending the Accounting Standard (AS) 11 – “Effects of Changes in Foreign Exchange Rates,” the company has opted to change the accounting policy retrospectively w.e.f. 01.04.07. Accordingly, the exchange differences on foreign currency denominated long term borrowings relating to the acquisition of depreciable capital asset are adjusted in the carrying cost of such assets. Earlier such differences were recognized in the Profit and Loss A/c.

The Company has given the following effect in the accounts for the aforesaid :

i) The exchange differences in respect of long term borrowings relating to acquisition of depreciable fixed assets (including Capital Work in progress) is Rs 83.4 million (inclusive of deferred tax and depreciation) for Financial Year 2007/08 is adjusted in Balance Sheet (debit balance in Profit & Loss Account) and the cost of fixed assets.

ii) Exchange difference relating to the year ending 31st March, 2009 is adjusted in the carrying cost of the fixed assets (including Capital Work in progress) amounting to Rs 5731.4 million. Due to the aforesaid option exercised by the company the depreciation for the year is higher by Rs 244.7 Millions and the loss is understated by Rs5486.7 .Millions.

4. **Retirement Benefits :**

(a) Contributions to Defined Contribution Schemes such as Provident Fund are charged to the Profit & Loss Account as follows :

Provident Fund Rs.7.1 Million (Previous Year 6.7 Million)

(b) The Company also provides retirement benefits in the Form of Gratuity and Leave Encashment on the basis of valuation, as at the Balance Sheet Date, carried out by independent Actuaries, as per revised AS15 issued by the Institute of Chartered Accountants of India. Net liability as per Actuarial Valuation is as follows :

i)	Gratuity	Rs. 6.3 Million (Unfunded)
ii)	Leave encashment	Rs. 6.5 Million(Unfunded)

5. In the absence of information of suppliers status, as defined under the Interest on Delayed payments to Small scale and Ancillary Industrial Undertakings Act, 1993, and Micro Medium and Small Enterprises (MSME)Act 2006, the disclosure for unpaid amounts together with interest on delayed payments, if any, to such suppliers, could not be made in the Accounts.

6. During the current financial year the company has billed NACIL(Holding Company) towards various handling services. The amount so billed has been recognized as handling revenue and the cost incurred has been debited to the Staff Cost.

7. a) Procurement of Stores, Aircraft etc. is controlled and monitored by the NACIL (Holding Company). While the company has opened independent bank accounts at various Indian/foreign location, there are still some transactions carried out by NACIL for and behalf of the company and vice-versa. Expenditure/collections at some stations are made by NACIL on behalf of the company and same has been routed through the Current Account based on information provided by NACIL.

b) Cargo, Mail and Excess Baggage revenue are controlled and monitored by NACIL on behalf of the company and the same has been accounted based on information provided by NACIL.

8. Miscellaneous Receipts includes Credits allowed by the Manufacturers/Vendors in the nature of Operational Support against the Aircraft purchased during the year amounting to Rs.428.2 Million (Pre.Year Rs.540.0 Million) and Rs. NIL (Pre.Year Rs.229.20 Million) towards aircraft insurance claim.

9. As per MOU between NACIL (Holding Co.)and AICL, revenue earned from Scheduled Services will be shared between NACIL and Air India Charters Limited in the ratio 25% and 75% respectively.

10. Pursuant to Undertaking between Air India Charters Ltd and NACIL and commercial decisions, AICL was to share cost towards common facilities and services till 31st March, 2007. However, as per representation received from NACIL no such cost towards common facilities and services will be allotted to AICL.

11. **Segment Reporting :**

i) In terms of AS-17, the company is engaged in airline related business, which is its primary business segment. The details of geographical area wise gross revenue earned (derived by allocating revenue to the area in which the sale was made) are given hereunder :

(Rupees in Million)

Particulars	**Current Year**	Previous Year
a) Gulf	**7,120.61**	4,743.20
b) S.E. Asia	**2,335.93**	1,383.80
c) India	**8,430.21**	7,095.40
TOTAL	**17,886.75**	13,222.40

ii) Presentation of Annual Accounts read with the Directors Report every year enables better understanding of the performance of the enterprise, better assessment of risk and returns, and makes more informed judgment about the activities of the company as a whole.

12. **Leases :**

i. Finance Leases :

Aircraft Fleet and Equipment acquired under finance leases are treated as if they had been purchased outright. The cost of these assets taken on lease is Rs.32633 million. The future lease obligation is **Rs.25,730.2 million** as at March 31, 2009.

The breakup of total minimum lease payments due as at 31st March 2009 and their corresponding present value are as follows :

(Rupees in Million)

Particulars	**As at 31st March 2009**	As at 31st March 2008
a) Outstanding balance of minimum lease payments including interest thereon,		
- Not later than 1 year	**2,697.7**	1,432.5
- Later than 1 yr and not later than 5 yrs	**12,291.3**	7,919.4
- Later than 5 yrs.	**13,654.2**	8,840.0
Total	**28,643.2**	18,192.0

b)	Present value of (a) above		
	- Not later than 1 year	**2,133.3**	941.7
	- Later than 1 yr and not later than 5 yrs	**10,709.9**	6,679.8
	- Later than 5 yrs.	**12,886.9**	8,128.0
	Total	**25,730.2**	15,749.5
c)	Finance Charges	**2,913.1**	2,442.5

ii. Operating Leases :

The Company has taken Aircrafts on non-cancelable lease. The future minimum lease rental payments as on 31st March, 2009 is as under :

Liability on Account of future Minimum lease rental payments, as on 31st March'09 are :

(**Rupees in Million)**

	Current Year	Previous Year
Payable within 1 year	**1,677.5**	1,345.2
Payable later than 1 year and	**1,082.5**	2,182.6
Not later than 5 years	**-**	-
	2,760.0	3,527.8

However, in case of premature termination balance lease rent for un-expired period is payable on termination.

Lease Rental recognized in the Profit and Loss Account is Rs.1583.06 Million (Previous Year Rs.1443.24 Million) inclusive of payment of Rs.79.57 Million (Previous Year Rs.82.41 Million) towards Maintenance Reserves.

As per the terms of the lease Agreement, M/s. NACIL Holding company, has given a Corporate Guarantee on behalf of the company in respect of lease of the Aircraft.

iii. Arrangement for Finance Leases :

The aircraft capitalized (737-800) were delivered to AICL between December 2006 to February 2009. 85% of aircraft financing package provided by the financial institutions is guaranteed by US Exim which in turn is guaranteed through a GOI guarantee in favour of US Exim. The balance 15% is arranged through Commercial loans. Under the financing arrangement with US Exim the company has to form a Special Purpose Vehicle Company (SPV Company) which would be located in a tax free jurisdiction which would own the asset. A two tier structure was therefore put in place whereby the head lessor (SPV Company) was situated in Delaware which could lease the aircraft to an Irish SPV (established in order to make the transaction tax neutral) . Since the issue of settling the GOI guarantee took considerable time, the company in the meanwhile had to take delivery of the aircraft in its books through a temporary financing arrangement. When the US Exim guaranteed loan was in place it was decided to cover all the delivered aircraft in the fleet up to that point by transferring the assets to the SPV Company based in Delaware and lease it again through the Irish SPV. There was as such no actual sale to the SPV Company but this had to be done to complete and comply the formalities of putting together a financial arrangement which was guaranteed through the US Exim. All costs related to the acquisition of the aircraft including the setting up of the SPV Companies have been capitalized in the books since it pertained to the acquisition of the aircraft. The lease has been structured as a financial lease so that the ownership in the aircraft would pass on to AICL at the end of the lease period. In the meanwhile i.e. the time from when the asset was initially acquired by the company in its books to the date the asset was transferred to the SPV company certain installments in the form of principal and interest fell due which were paid off. Thus there was no impairment loss suffered by the company in this transaction.

13. Related Party Transactions :

Disclosure as required by Accounting Standard 18 (AS18) "Related Party Disclosures" issued by the Institute of Chartered Accountants of India, are given below :

A. **Related party :**

1. Key Managerial Personnel & Relatives :

1.	Shri Raghu Menon	Chairman
2.	Shri S. Mukherjee	Director

3.	Shri Rajiv Bansal	Director	upto 26 May 2008
4.	Shri S. Chandrasekhar	Director	
5.	Smt. Abha Shukla	Director	
6.	Shri Raja Sekhar Reddy	Director	from 8 August 2008

B. **Related Party Transactions :**

i. There are no Transactions with key Managerial Personnel.

ii. Transactions such as providing Airline Related services in the Normal course of Airline business are not included.

C. No Loans or Credit Transactions were Outstanding with Directors or Officers of the Company or their relatives at the end of the year which are required to be disclosed in accounts under the Companies Act, 1956.

14. Deferred Tax Asset/(Liability) is as under :

(As worked out by the Management and certified by the Tax Consultants)

(Rupees in Millions)

	As at 31st March 2009	As at 31st March 2008
Deferred Tax Liability : (DTL)		
Depreciation	**5775.30**	3015.30
Deferred Tax Assets : (DTA)		
Disallowances as per I.T.Act'61	**7.37**	12.60
Loss	**5767.93**	3002.80
Total DTA	**5775.30**	3015.40
Net DTA/(DTL)	**-**	0.10

Note :
As assessments of previous financial years are yet to be completed, as a prudence, deferred tax asset on account of unabsorbed depreciation and business loss has been recognized to the extent it can be realized against reversal of deferred tax liability on account of depreciation.

15. As per accounting policy followed, as a prudence the company has charged-off the CENVAT credit up to 31st March, 2009. However, the company reserves the right to claim accumulated CENVAT credit as per clarification by CBEC Vide Circular No. File No.137/72/2008-CX.4 dated 21st November, 2008 towards payment of future output Service Tax.

16. The following TDS account is subject to reconciliation :

i) TDS Accounts (Net) Rs.3.1 Million (P.Y. Rs.176.66 Million)

ii) B.O. Recoverable (Net) Rs. 0.5 Million (P.Y. 1.2 Million)

Balance confirmation has not been obtained from some debtors, creditors and other parties.

The impact on Profit & Loss Account on such reconciliation, confirmation, if any, is not ascertained. However, the Management doesn't expect any material adjustment on receipt of confirmation/reconciliation of such balances.

17. Earning per Share :

Particulars	**31st March 2009**	31st March 2008
Amount used as numerator Profit (Loss) after tax and extra ordinary items * (Rs. In millions) *Includes Deferred Tax	**(3396.0)**	659.4
No. of Shares	**3000000**	3000000
Basic and diluted earning per share (in Rupees)	**(1132)**	219.78

18. **Remuneration to various Auditors :**

The details of the audit fees and out of pocket expenses for the year 2008-2009 are as under :

(In Rupees)

	2008-09	2007-08
Statutory Auditors :		
Audit Fees for the year (Provision)	**2,50,000**	1,50,000
Audit Fees (for Previous Year)	**1,00,000**	-
Out of Pocket Expenses (On payment basis)	**25,000**	11,460
Total	**3,75,000**	1,61,460
Internal Auditors :		
Internal Audit Fees	**1,00,000**	1,00,000
Out of pocket Expenses (On payment basis)	**20,000**	20,000
Tax Auditors :		
Tax Audit Fees	**90,000**	85,000
Out of pocket expenses (On payment basis)	**10,000**	8,500

19. In the opinion of the management, the year end balances of Current Assets, and Loans and Advances are expected to realize in the ordinary course of business, at least to the extent the amount at which they are stated.

20. The Company has been obtaining exemption from the Ministry of Company Affairs, under section 211(4) of the Companies Act, 1956, in respect of the following requirements prescribed in paragraph 4D (b), (e) (i) and (e) (ii) of Part II, Schedule VI to the Companies Act, 1956 :

(i) Expenditure in foreign currency during the financial year on account of Royalty, Know-how, Professional Consultation fees, Interest and other matters.

(ii) Earnings in foreign currency classified under the heads :

a) Export of Goods calculated on F O B basis;
b) Royalty, Know-how, Professional and Consultation Fees;

The exemption for the financial year 2008-09 is awaited.

The details of turnover of inflight items, as required vide paragraph 3(iii)(b) of Schedule VI to the Companies Act, 1956, are not disclosed as the turnover of such items is insignificant.

21. **Consumption of stores and spare parts as certified by NACIL :**

(Rupees in Millions)

Particulars	**2008-09**	**%**	2007-08	%
Imported	**184.2**	**100**	95.38	100
Indigenous	**-**		-	
Total	**184.2**		95.38	

22. **Value of Imports (excluding Insurance and Freight) as certified by NACIL :**

(Rupees in Millions)

Particulars	**2008-09**	2007-08
Spares Parts	**248.5**	88.4
Capital Goods	**6175.7**	9192.9

23. Outstanding Liabilities include an ad-hoc provision of Rs.50.0Mill (Previous Year-RS 10.0 Mill) towards unforeseen expenses /liabilities.

24. Information Pursuant to paragraph 4D of Part II, Schedule VI to the Companies Act, 1956 : (As certified by the management)

(Rupees in Million)

Earnings in Foreign Exchange	2008-09	2007-08
Income from Commercial Agreement and Handling Charges	**130.8**	190.8
Miscellaneous receipts (Operational support credits)	**428.2**	540.1

25. The value of Fringe benefit for the purpose of Fringe Benefit Tax **(FBT)** has been determined on the estimated basis. Payment for expenses made by NACIL on behalf of the company has not been considered for FBT.

On the basis of expert opinion obtained by the holding company NACIL, expenditure incurred for crew hotel expenses and layover have not been considered for the purpose of FBT liability.

Adjustment for the differential in FBT, if any, shall be carried out on completion of the assessment proceedings.

26. Borrowing costs debited to capital Work In progress during the year is Rs.320.5 Millions (Previous Year - Rs. 674.5 Millions).

27. Previous Year figures have been regrouped and recast, wherever necessary, to make them comparable.

Signatures to the Schedules forming part of the Balance Sheet and Profit and Loss Account and to the above notes.

For J.P.J. Associates
Chartered Accountants

Sd/-
Pravin R. Deshpande
Partner
M. No. 045249

Place : New Delhi
Date : 9 October 2009

For and on behalf of the Board

Sd/-
Arvind Jadhav
Chairman

Sd/-
L. Raja Sekhar Reddy
Director

Sd/-
Aditi Khandekar
Company Secretary

ANNEXURE

BALANCE SHEET ABSTRACT AND COMPANY'S GENERAL BUSINESS PROFILE :

Additional Information pursuant to Part IV of Schedule VI to the Companies Act, 1956.

I. Registration Details :

Registration No.		11-15328	State Code	:	11
Balance Sheet Date	:	March 31,2009			

II. Capital Raised during the Year (Amount Rupees in Thousand)

Public Issue	:	NIL	Rights Issue	:	NIL
Bonus Issue	:	NIL	Private Placement	:	NIL

III. Position of Mobilisation and Deployment of Funds (Amount Rupees in Thousand)

Total Liabilities	:	41,247,698	Total Assets	:	41,247,698

Source of Funds :

Paid Up Capital	:	300,000	Reserves and Surplus	:	NIL
Secured Loans	:	27,553,088	Unsecured Loans	:	10,514,400

Application of Funds :

Net Fixed Assets	:	35,270,289	Investments	:	NIL
Net Current Assets	:	(442,790)	Misc.Expenditure	:	NIL
Deferred Tax Assets	:	NIL			

IV. Performance of Company (Amount Rupees in Thousand)

Turnover	:	14,163,522	Total Expenditure	:	17,559,538
Extraordinary Income					
Profit/Loss Before Tax	:	(3,402,945)	Profit/Loss After Tax	:	(3,396,016)
Earning Per Share (Basic)	:	(1,132)	Dividend	:	0

V. Generic Names of Three Principle Products / Services of Company

1. Passenger Carrier
2. Cargo Carrier
3. Handling Services

Product Code	Product / Service description
720	Air Transport carrier (of passengers and cargo)

For J.P.J. Associates Chartered Accountants	For and on behalf of the Board		
Sd/- **Pravin R. Deshpande** Partner M. No. 045249	Sd/- **Arvind Jadhav** Chairman	Sd/- **L. Raja Sekhar Reddy** Director	Sd/- **Aditi Khandekar** Company Secretary

Place : New Delhi
Date : 9 October 2009