

## DIRECTORS' REPORT

The Directors have pleasure in submitting the Fourth Annual Report of the Company together with the Audited Accounts, Auditors' Report and Comments of the Comptroller and Auditor General of India on the accounts, for the year ended 31 March 2011.

The Civil Aviation scenario globally and within India is analysed herein to give a brief background on the results of AIR INDIA LTD. for the financial year 2010-11.

### 1. CIVIL AVIATION SCENARIO

#### WORLD

##### 2010

IATA reported full year 2010 demand statistics for international scheduled air traffic that showed a 8.2% increase in the passenger business and a 20.6% increase in freight. Demand growth outstripped capacity increases of 4.4% for passenger and 8.9% for cargo. Average passenger load factor for the year was 78.4% which is a 2.7% improvement on 2009. The freight load factor saw a 5.2% improvement to 53.8%.

##### Forecast highlights - 2011 :

**Traffic** : Passenger demand is expected to grow 4.4% and cargo demand is expected to increase 5.5%.

**Yields** : Yields are forecast to grow by 3% for passenger traffic and 4% for cargo.

**Load Factors** : Overall capacity (combined passenger and cargo) is expected to expand 5.8%. Due to schedule commitments and fixed costs, capacity adjustments are expected to continue lagging behind the fall in demand, driving load factors down.

**Fuel** : The average oil price for 2011 is expected to be \$110 per barrel.

IATA reported that during 2010 margins remain pathetic. With a 2.7% net margin in 2010 shrinking to 1.5% in 2011. Airlines will barely be able to cover the cost of capital with the industry remaining fragile and balancing on a knife edge.

#### INDIA

The aviation industry has emerged out of the global financial crisis at a steady pace and on the back of this, Indian aviation industry has also shown high growth rates over the last few quarters. With significant capacity rationalization in the domestic aviation sector in the last two years and strong passenger growth, capacity increase is well aligned to demand. International passenger carriage to/from India registered a growth of 10.3% and Domestic air traffic grew by 19% during 2010-11 compared to the same period last year. This compares to capacity increase of 11% for the same period.

The international and domestic freight handled by Indian airports during 2010-11 increased by 17.7% and 23.7%, respectively when compared with 2009-10.

The Indian aviation market continued its growth during the year under review at a steady pace. The growth of Indian economy was a major trigger and the aviation market has been growing at a healthy two times multiple of the GDP growth. According to the DGCA, the Indian domestic traffic for the year continued to show an impressive growth rate of 21%.

Passengers carried by domestic airlines during January-November 2011 were 55.03 million as against 46.80 million during the corresponding period of previous year thereby registering a growth of 17.6%.

India is expected to cross the 450 million mark of domestic passengers by 2020. During the last two decades, from a fleet of only about 100, the scheduled operators now have reached 435 aircraft connecting the nation and the world.

##### **Infrastructure:**

In a bid to encourage regional airlines and provide air links to small cities and towns, nearly 25 no-frill and low-cost Greenfield airport projects have been identified for development by various States. Planned in the tier-II or tier III cities, these airports would be developed in addition to the Ministry of Civil Aviation's ambitious modernization programme for 35 non metro airports and two major airports in Kolkata and Chennai. A no-frill airport allows operation of small jets as well as slightly bigger aircraft like Boeing's B737 or Airbus' A320.

The Government has taken various steps towards structural policy reforms and is coming out with new policies which are liberal and will encourage public-private partnerships.

Airports Authority of India (AAI) has entered into Operation Management and Development Agreements (OMDA) with M/s Delhi International airport Ltd for IGI Airport, Delhi with an objective to develop it into a world class airport. Phase I of the development of IGI airport has been completed with the construction of the new Integrated Terminal 3. It caters to additional 34 million passengers per annum and can operate as a hub. AAI has also announced that it will seek the Government's clearance for its proposal to issue Rs.50000 million (USD 1.04 billion) worth of infrastructure bonds to further develop 15 airports in the country.

The Vision 2020 announced by the Ministry of Civil Aviation conceives of building infrastructure to support 280 million passengers.

## 2. REVIEW OF PERFORMANCE – HIGHLIGHTS

### 2.1 Financial Performance :

The financial performance of the Company during the year 2010-11 was as under :

(Rupees in Million)

| Particulars                               | 2010-11   | 2009-10    |
|---|-----------|------------|
| Profit / (Loss) Before Depreciation & Tax | (51735.7) | (41621.4)* |
| Less : Depreciation                       | 16901.0   | 13887.6*   |
| Profit / (Loss) Before Tax                | (68636.7) | (55509.0)  |
| Less : Provision for Tax                  | 15.0      | 15.4       |
| Add : Deferred Tax Benefit                | -         | -          |
| Net Profit / (Loss)                       | (68651.7) | (55524.4)  |

\* Figures Restated

### 2.2 Physical Performance :

| Particulars                             | Unit      | 2010-11 | 2009-10 |
|---|-----------|---------|---------|
| ASKMs (Scheduled Services)              | Million   | 45608   | 44723   |
| ASKMs (Total)                           | Million   | 46123   | 45748   |
| PKMs (Scheduled Services)               | Million   | 30168   | 28965   |
| PKMs (Total)                            | Million   | 30448   | 29448   |
| ATKMs (Scheduled Services)              | Million   | 6322    | 6053    |
| ATKMs (Total)                           | Million   | 6381    | 6179    |
| RTKMs (Scheduled Services)              | Million   | 3677    | 3533    |
| RTKMs (Total)                           | Million   | 3700    | 3576    |
| Passenger Load Factor                   | %         | 66.1    | 64.8    |
| Overall Load Factor                     | %         | 58.2    | 58.4    |
| No. of Pax Carried (Scheduled Services) | Million   | 12.78   | 11.75   |
| No. of Pax Carried (Total)              | Million   | 13.08   | 11.97   |
| Freight Carried                         | Tonnes    | 174466  | 154752  |
| Aircraft Utilisation (Per Aircraft)     | Rev. Hrs. | 3448    | 3511    |
| Total Revenue Hours Flown               | No.       | 391401  | 359778  |

## 3. OTHER FINANCIAL INFORMATION

### 3.1 Share Capital :

#### Authorised Share Capital

The Authorised Share Capital of the Company is Rs. 50,00,05,00,000/- (divided into 5,00,00,50,000 equity shares of Rs.10/- each).

**Issued, Subscribed & Paid-up Share Capital**

The Issued, Subscribed & Paid-up Share Capital of the Company, is Rs.2,145,00,00,000/- divided into 214,50,00,000 fully paid up equity shares of Rs.10/- each. During the year 2011-12, Government of India infused Rs.12,000 million towards equity capital.

**3.2 Aircraft Project Loans :**

As on 31 March 2011, the position of aircraft loans, including future lease obligations in respect of finance leases, was as under :

(Rupees in Million)

|  |          |
|--|----------|
| Total Loan due as on 1 April 2010                                  | 1,98,801 |
| Add : Amount drawn during April 2010 to March 2011                 | 22,939   |
| Less : Amount repaid during April 2010 to March 2011               | 14,954   |
| Less : Exchange adjustments due to revision in rates of Currencies | (1,003)  |
| Add : Interest accrued and due as on 31 March 2011                 | 1,098    |
| Balance as on 31 March 2011  | 2,06,881 |

**3.3 Annual Plan Outlay 2010-11**

The Government had approved an Annual Plan Outlay of Rs.56,348.0 million (including Rs.12,000.0 million for equity infusion) for the year 2010-11. Against this outlay, the actual expenditure for the year was Rs.34,189.6 million (including Rs.12,000.0 million for equity infusion) as detailed below :

(Rupees in Million)

|  | Approved      | Actual        |
|--|---------------|---------------|
| <b>Aircraft Projects</b>                         |               |               |
| Payment to aircraft / spare engine manufacturers | 39,463        | 18,153        |
| Interest to be Capitalised                       | 2,515         | 1,356         |
| <b>Non-Aircraft Projects</b>                     |               |               |
| Other capital expenditure                        | 2,370         | 2,680         |
| Equity infusion by Government of India           | 12,000        | 12,000        |
| <b>TOTAL PLAN OUTLAY</b>                         | <b>56,348</b> | <b>34,190</b> |

Due to the slippage in delivery of B787-8 aircraft, no advance payments were made to Boeing during 2010-11.

**3.4 Annual Plan Outlay 2011-12**

The Annual Plan Outlay for the year 2011-12 is Rs.57,493.6 million including Rs.12,000.0 million for equity infusion from Government. The Company has spent Rs.14,595.5 million upto September 2011.

Due to further slippage in delivery of B787 aircraft from June 2011, as estimated at the time of formulation of Annual Plan 2011-12, no delivery / advance payments were made during the half year ended September 2011.

**3.5 Twelfth Five Year Plan – 2012-13 to 2016-17 :**

Air India has submitted an outlay of Rs.329,637.0 million for the Twelfth Plan period as detailed below:

(Rupees in Million)

|                                   |                |
|-----------------------------------|----------------|
| Aircraft Projects                 | 111,877        |
| Non-Aircraft Projects             | 18,650         |
| Budgetary support from Government | 199,110        |
| <b>TOTAL PLAN OUTLAY</b>          | <b>329,637</b> |

Approval from the Ministry of Civil Aviation is awaited.

**4. STATUTORY COMPLIANCE**

The following are the wholly owned subsidiaries of the Company :

Air India Air Transport Services Limited  
Air India Charters Limited  
Air India Engineering Services Limited  
Airline Allied Services Limited  
Hotel Corporation of India Limited  
IAL Airport Services Limited \*  
Vayudoot Limited

\* The name of the Company was struck off from the Register of the Registrar of Companies and the company stands dissolved with effect from 25 March 2011.

**5. DIRECTORS' RESPONSIBILITY STATEMENT**

The Board of Directors of the Company confirm :

- that in the preparation of the annual accounts, the applicable accounting standards have been followed and wherever there are deviations, necessary disclosures have been given;
- that the selected accounting policies were applied consistently, other than disclosed in the Notes to Accounts, and the Directors made judgments and estimates that were reasonable and prudent so as to give a true and fair view of the state of affairs of the Company as at 31 March 2011 and of the profit or loss of the Company for the period ended on that date;
- that proper and sufficient care has been taken 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; and
- that the annual accounts have been prepared on a 'going concern' basis.

**6. INDUSTRIAL RELATIONS**

Relations with the work force generally continued to be cordial during the year 2010-11 barring an agitation by the Indian Commercial Pilots' Association (ICPA) representing line pilots of erstwhile Indian Airlines Limited for various demands including disparity in working conditions and emoluments between erstwhile Indian Airlines and erstwhile Air India Pilots, from 27 April 2011 until 6 May 2011.

A number of flights were cancelled/combined and company had to immediately stop booking tickets on its flights as well as curtail flight schedule. Even out of the curtailed schedule, 50% flights had to be cancelled. The flash strike caused serious inconvenience and harassment to a large number of our esteemed passengers besides causing revenue loss to the Company.

The Management took a serious view of the above action and services of 6 Line Pilots and 3 Executive Pilots were terminated. Further, on account of violation of terms of recognition, the recognition of ICPA was withdrawn and seven pilots were placed under suspension.

In order to resolve the matter, meetings were held by ICPA with the Officials of Ministry of Civil Aviation from 4 to 6 May 2011. In terms of the Minutes of the Meeting, recognition of ICPA was restored and letters of termination issued to the terminated pilots were withdrawn, suspension revoked and all terminated and suspended pilots joined back duties. Due to this normalcy was restored in all regions with effect from 6 May 2011. During this period, the Company was able to operate 10% of its scheduled domestic operations resulting in reduction of capacity and loss of revenue and goodwill.

**7. CORPORATE SOCIAL RESPONSIBILITY****7.1 Environment Protection**

In keeping with the resolution to reduce fuel cost, bring down operating costs and strong commitment to go GREEN, Air India signed a 5 year franchise agreement with Pratt & Whitney (P&W) to become the first and sole authorized service provider of EcoPower Engine Wash Service in India. The EcoPower Engine Wash System is a new generation equipment and the only one of its kind that is designed and patented by P&W to clean aircraft engine gas path in Line Maintenance. The System is used to effectively clean the engine gas path that results in a reduction of fuel burn leading to reduction in carbon emissions. Further, Engine Exhaust Gas Temperature decreases by as much as 8-12 degrees, which in turn leads to increased engine on-wing life. Thus, EcoPower Wash provides a safe and environmentally responsible solution.

February 12-18, 2011 was celebrated as Green Productivity Week.

### Fuel Savings

Actual fuel savings achieved from September 2008 to August 2011 is 177 million Kgs thereby saving Rs.6936.1 million.

### Emission Reduction

A total carbon dioxide saving of 558 million Kgs was achieved from September 2008 to August 2011.

### Environment Management System

Corporate-wide Environment Management System Policy has been signed and various initiatives were introduced for reducing Carbon Dioxide emission, initiating tree plantation, commencing introduction of Document Management System to reduce use of paper in office.

### EU-ETS

Various procedures were adopted in operational areas helped the Company reduce carbon emissions. The European Union Trading Scheme (ETS) had mandated for the aviation industry that all flights with origin or destination in the European Union would have to be necessarily covered by the Scheme. Air india submitted the ETS required plans for the annual emission and tonne kilometer monitoring in August 2009.

Air India has successfully cleared the EU-ETS Audit and verification process, which was conducted by M/s Bureau Veritas (EU accredited verifier) from 22 March to 25 March 2011. The verification report and data was submitted to the Environment Agency of UK on 31 March 2011.

## 7.2 Encouragement/assistance to small scale industrial units

In accordance with the Government guidelines issued from time to time, the Company continued to support the SSI units/Social Welfare/charitable organisations. The procurement from SSI units during the year amounted to approximately Rs.70.5 million and the selective sourcing/procurement from social/charitable organisations amounted to Rs.0.03 million.

## 8. OFFICIAL LANGUAGE IMPLEMENTATION

In order to monitor progressive use of Hindi in the Office, meetings of 57 Official Language Implementation Committees constituted on all India level were held regularly.

In order to facilitate officers/employees in doing their official work in Hindi, 2 Hindi workshop training programmes were organised. 31 officers/employees were trained in these training programmes. Further, 26 employees were trained in Hindi Language (Praboth & Praveen).

The Ministry of Civil Aviation carried out inspections of Srinagar, Goa, Coimbatore, Leh, Raipur, Lucknow, Nagpur and Varanasi stations. During this period, Official Language Department of the Company also carried out inspection of 7 stations and 16 departments.

Mrs. Praveena Sabnees, Security Officer was honoured with the "Aashirwad Rajbhasha Samman" for doing excellent work and dedication towards the progressive use of Hindi in day-to-day work at the 19<sup>th</sup> Rajbhasha award function 2010 organised by a well known literary, socio-cultural organization "Aashirwad" of Mumbai.

New Passenger Service System (PSS) has been made available in which facility to book a ticket in Hindi has also been provided through net. In India, Air India is the only airline which has provided this facility.

"Vimanika" was awarded first prize by the Secretary, Ministry of Civil Aviation (MOCA) in the Official Language Implementation Committee Meeting held on 23 December 2010, under the category of Hindi magazines published by subordinate organizations of the MOCA.

"Vimanika" was also awarded first prize by the Department of Official Language, Ministry of Home Affairs. This award was conferred by the Hon'ble President of India to CMD-Air India in a function held on 14 September 2011 at Vigyan Bhawan, New Delhi.



## 9. IMPLEMENTATION OF RESERVATION POLICY

The Reservation Policy has been implemented as per the Presidential Directives issued in the year 1975, along with the revised Directives effective 1991 and 1996.

### SC / ST / OBC – Number of employees as on 31 March 2011

| Total No. of employees | Total No. of SC employees | % of SC employees | Total No. of ST employees | % of ST employees | Total No. of OBC employees | % of OBC employees |
|------------------------|---------------------------|-------------------|---------------------------|-------------------|----------------------------|--------------------|
| 28085                  | 6146                      | 21.88             | 2055                      | 7.32              | 1382                       | 4.92               |

## 10. CORPORATE GOVERNANCE

The Company's Corporate Governance philosophy was to continuously strive to attain higher levels of accountability, transparency, responsibility and fairness in all aspects of its operations. The Company remained committed towards protection and enhancement of overall long term value for all its stakeholders – customers, lenders, employees and the society. The Company also acknowledges and appreciates its responsibility towards the society at large and has embarked upon various initiatives to accomplish this.

During the year under review, the Company continued its pursuit of achieving these objectives through the adoption of competitive corporate strategies, prudent corporate and business policies and plans, strategic monitoring and mitigation of risks, while at the same time, creating checks and balances in an organization that values people, propriety, equity and fair play. The Company follows sound business practices and conducts its business in a transparent manner. The Company remained committed towards ensuring observance of Corporate Governance principles in all its dealings.

Integrity Pact Programme was implemented effective 8 February 2008. It has been made mandatory to incorporate Integrity Pact in respect of all contracts with a value of Rs.100 million and above.

## 11. AUDIT COMMITTEE

As part of the Corporate Governance process and following the policy of ensuring transparency, accountability, integrity and compliance of various laws, the Company constituted the Audit Committee of the Board in November 2007. The Audit Committee met three times during the year to review various issues including inter alia annual accounts of the Company for the year before submission to the Board.

As on 31 March 2011, the following were the Members of the Audit Committee :

|                           |                   |
|---------------------------|-------------------|
| Shri Harshavardhan Neotia | Chairman          |
| Shri E.K.Bharat Bhushan   | Member            |
| Shri Prashant Sukul       | Member            |
| Shri Arvind Jadhav        | Permanent Invitee |
| Director-Finance          | Special Invitee   |
| ED-Internal Audit         | Special Invitee   |

The terms of reference of this Committee are :

- ❖ To consider the appointment of the External Auditor, Audit Fee & all matters relating thereto;
- ❖ To discuss with the Auditor before the audit commences the nature & scope of the audit and to ensure co-ordination where more than one audit firm is involved;
- ❖ To review the half yearly and annual financial statements before submission to the Board;
- ❖ 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;
- ❖ To review the Company's Statement on Internal Control Systems prior to endorsement by the Board;
- ❖ To review the Internal Audit programme and ensure co-ordination between the Internal & External Auditors as well as determine whether the Internal Audit function is commensurate with the size and nature of the Airlines Business and to consider any other matter as desired by the Board;

**12. BOARD OF DIRECTORS AS ON 31 MARCH 2011**

|   |   |
|---|---|
| Shri Arvind Jadhav                      | Chairman & Managing Director                                    |
| Shri Anup K. Srivastava                 | Director (Personnel)  |
| Smt. Anita Khurana                      | SBU Head (Cargo)  |
| Shri V. K. Sharma                       | SBU Head-MRO (Eng. & Comp.)                                     |
| Shri K. M. Unni                         | SBU Head-MRO (Air Frame)  |
| Shri S. Chandrasekhar                   | Director (Finance)  |
| Shri Harshavardhan Neotia               | Managing Director, Bengal Ambuja Housing Development Limited    |
| Air Chief Marshal Fali H. Major (Retd.) | Former Chief of Air Staff, Indian Air Force                     |
| Shri Yusuffali M. A.                    | Managing Director, EMKE Group                                   |
| Shri E. K. Bharat Bhushan               | Addl. Secretary & Financial Advisor, Ministry of Civil Aviation |
| Shri Prashant Sukul                     | Jt. Secretary, Ministry of Civil Aviation                       |

With effect from 12 August 2011, Shri Rohit Nandan was appointed Chairman & Managing Director of the Company *vice* Shri Arvind Jadhav.

During the year Shri Amod Sharma, Shri Anand Mahindra, Dr Amit Mitra ceased to be Directors effective 1 February 2011, 9 March, 18<sup>th</sup> March 2011, respectively.

Shri Anup Srivastava and Smt Anita Khurana ceased to be a Directors effective 22 June 2011 and 14 July 2011, respectively.

Shri S Chandrasekhar retired from the services of the Company effective 31 August 2011.

The Board places on record its appreciation of the valuable services rendered by Shri Arvind Jadhav as Chairman & Managing Director and S/Shri Amod Sharma, Anup Srivastava, Anand Mahindra, S Chandrasekhar, Dr Amit Mitra and Smt Anita Khurana during their tenure as Directors of the Company.

The Board met 9 times during the year 2010-11 to discuss issues of vital significance for the airline including inter alia turnaround plan & financial restructuring plan, operationalisation of Ground Handling and MRO subsidiaries, Commercial Transformation Project, revision of gratuity ceiling, implementation of SAP-ERP, MRO Joint Ventures, Budget - 2010-11, B787 induction and compensation claim, aircraft financing, working capital requirements of the Company, increase in overall borrowing limits, MOU/wage agreements with unions, leasing of A320/A330 aircraft, disposal of A320 grounded aircraft, extension of AISATS joint venture to other airports, employees' service regulations, sports policy, rearrangement of authorised share capital, bridge loan facility for aircraft financing, recruitment and promotion rules, introduction of the new Passenger Service System, equity infusion by Government, etc.

**13. COMMENTS OF COMPTROLLER AND AUDITOR GENERAL OF INDIA**

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 2011 and the reply of the Management are annexed to this report.

**14. PARTICULARS OF EMPLOYEES**

Information in accordance with the provisions of Section 217(2A) of the Companies Act, 1956, read with the Companies (Particulars of Employees) Rules, 1975 as amended, is set out in the Annexure to the Directors' Report.

**15. AUDITORS**

M/s Kapoor Tandon & Co., Mumbai, M/s P K Chopra & Co., New Delhi, M/s R Devendra Kumar & Associates, Mumbai and M/s P K K G Balasubramaniam & Associates, Chennai were appointed Joint Statutory Auditors for the year 2010-11 by the Comptroller & Auditor General of India.

**16. CAUTIONARY STATEMENT**

Statement in the Management Discussion and Analysis describing the Company's objectives, projections, estimates, expectations may be "forward-looking" statements within the meaning of applicable laws and regulations. Actual results may differ materially from those expressed or implied. The important factors that could make a difference to the Company's operations include economic conditions affecting demand/supply, global economic condition and pricing in the domestic and overseas markets in which the Company operates, changes in the Government policies, regulations, tax laws and other statutes and other incidental factors. Fuel is a major determinant of the airline's profitability constituting nearly 35% of its total costs and any major variation in its prices could impact the airline's profitability. Besides this, global and economic factors like slowdown, liquidity crisis in the global markets, geo-political conditions and stability, exchange fluctuations in the US dollar in which most of the debts/expenses of the Company are denominated could also influence the airline's performance.

**17. ACKNOWLEDGEMENTS**

The Board sincerely appreciates the Company's valued customers in India and abroad for using the services of the Company 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 at all levels.

The Board also gratefully acknowledges the support and guidance received from various Ministries of the Government of India, the Ministry of Civil Aviation in particular, in Company's operations and development plans. The Board expresses its gratitude to the DGCA, Comptroller and Auditor General of India, Ministry of Finance, Ministry of Corporate Affairs, the Statutory Auditors, Airports Authority of India, other Government Departments, Airlines, Agents, Oil Companies, Reserve Bank of India, Indian and International Financial Institutions and Banks including the EXIM Bank, USA and KfW Bank.

For & on behalf of the Board

Sd/-

**(Rohit Nandan)**

Chairman & Managing Director

Place : New Delhi

Date : 29 December 2011