REPORT OF THE AUDITORS TO THE MEMBERS OF AIR INDIA LIMITED

1. We have audited the attached Balance Sheet of **Air India Limited** (Formerly Known as **National Aviation Company of India Limited)**, as at 31st March 2011, the Profit and Loss Account of the Company for the year ended 31st March 2011 and the Cash Flow Statement for the year ended on that date and 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 misstatement. 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), issued by the Central Government in terms of Section 227 (4A) of the Companies Act, 1956, and on the basis of such checks as we considered appropriate and as per information and explanations given during the course of our audit, we annex hereto a Statement on the matters specified in paragraphs 4 and 5 of the said Order.

4. We further Report that **:**

   i. *As stated in Note No. 34 the visits to foreign stations/ Branches of the company could not be conducted. These Visits were meant to audit the original records maintained at these stations/branches and to examine the internal controls. Therefore, our audit of the accounts has been conducted subject to the said limitation and in respect of certain foreign stations for which some of the records were produced locally, has remained restricted to examinations of records produced before us. Other foreign stations not visited by us, have remained unaudited.*

   ii. *As stated in Note no.23,24,25,30,37,46 regarding confirmations and reconciliation of receivables and payables and reconciliation of various balances in subsidiary accounts at certain locations, we are unable to comment on the impact of adjustments arising out of reconciliation / confirmation of such balances, on the Financial Statements. The impact of the same on the Financial Statements is not ascertainable.*

   iii. *Loans and Advances includes an amount of Rs.642.60 million paid to lessors towards maintenance charges of Aircrafts which have been accounted for as prepaid expenses as per companies accounting policy to be charged to the profit and loss account when the maintenance is actually carried out as the amount paid towards maintenance charges have been calculated and accrued on the basis of flight cycles/hour flown, the amount paid should have been treated as expenditure as per accrual basis of accounting. This has resulted in overstatement of prepaid expenses and under statement of loss for the year by Rs.642.60 million.*

   iv. *As stated in Note No. 30(d) certain closing balances including liabilities in foreign currencies are not stated at FEDAI rates at the year end, which is not in compliance with the requirements of AS-11issued by ICAI.*

   v. *No provision has been made towards interest /penalty if any payable towards outstanding dues for service tax (Refer Note No. 30 (g)) and Note No. 31(a) regarding dues from suppliers.*

5. Attention is invited to **:**

   i) *As stated in Note No.44, the company has been carrying the net balance of deferred tax asset amounting to Rs.28425.2 million which was recognized in years 2007-08 & 2008-2009. In the subsequent years deferred tax asset has been recognized only to the extent of deferred tax liabilities as a prudent measure. Since the virtual certainty as stipulated under AS-22 had not been established in the year 2009-10, the carrying amount of deferred tax asset should have been charged off to the Profit & Loss Account in the year 2009-10 itself. Consequent to above, the opening balance of the carried forward losses has been understated to the extent of Rs. 28425.2 million and balance of deferred tax asset has been overstated to that extent. Further during the year deferred tax has been recognized to the extent of deferred tax liability amounting to Rs.9,768.1 Million. Though the management is confident of realizing the deferred tax asset based on the turn around measures which are at various stages of implementation as stated in the said Note No.44, the impact thereof as expected by the management cannot be conclusively established and therefore it has not been possible for us to conclude as to whether there is a virtual certainty as envisaged under the provisions of AS-22 issued by ICAI. We have therefore not been able to form our opinion in respect of realisability of the deferred tax asset recognized during the year. The impact of the above, if any, on the loss for the year could not be ascertained.*

   ii) *Note No. 45 regarding the financial statements of the Company having been prepared on a going concern basis, notwithstanding the fact that its net worth is completely eroded. The appropriateness of the said basis is interalia dependent on Company's ability to obtain equity from the Government for meeting its obligations and improved operational performance.*

   iii) *Note No. 6 & 7 regarding pending registration formalities and title deeds being obtained in respect of certain properties and Note No.10 regarding reworking of the depreciation on certain assets.*

   iv) *As stated in Note No. 12, fees associated with bridge / long term delivery financing being capitalized after the commercial operations, not being in accordance with AS-16 issued by ICAI.*

   v) *Note No.16 regarding impairment assessment being done in respect of certain assets in accordance with AS-28 issued by ICAI.*

vi) *Note No. 20 regarding additional premium payable to CIDCO towards non development of surplus land being capitalized.*

vii) *Note. No. 21 regarding accounting for claim of liquidated damages on account of delay in deliveries of aircraft, which is dependent on delivery of aircraft.*

viii) *Note No. 27 and 30 regarding improvements required in internal control at various locations.*

ix) *Note No. 28, regarding machinery spares meant for modification of aircrafts (amount unascertained) are continued to have been included as inventory.*

x) *Note No. 29 regarding certain items being* accounted for on cash basis.

xi) *Note No. 30(j) relating to redelivery of aircraft amounting to Rs. 792.0 million charged off to profit & loss account.*

xii) *Note No. 32 regarding manufacturer's credit amounting to Rs. 175.12 million being taken to revenue instead of adjusting to the cost of assets.*

xiii) *Note No. 41 of Schedule-X regarding non-cognizance of losses incurred by the subsidiary companies and, consequently not providing for diminution in the value of Investments therein to be in compliance with AS-13.*

xiv) *Note No. 47 regarding adhoc provision towards wage arrears.*

We further Report that in view of the observations made by us in the paragraphs 4 & 5 above, considering the impact to the extent quantifiable, Loss for the year is understated by Rs.817.72 million, Accumulated losses are understated by Rs.28425.20 million, fixed asset are overstated by Rs.175.12 million with consequential impact on loss for the year being not determined precisely, Current Assets, Loans and Advances are overstated by Rs. 642.60 million and Deferred Tax Asset would have been Rs. nil.

6. Further to our comments in the Annexure referred to in Para 3 and subject to our observations in Para 4 & 5 above, we Report that :

i) 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.

ii) 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 these books maintained at Central Accounts Office of the Company, incorporating the information/ returns received from the stations and Reports received from outsourced agencies and found to be generally adequate for the purpose of our audit.

iii) The Company being a Government Company as defined in Section 617 of the Companies Act, 1956, is exempted from the applicability of the provisions of the Section 274 (1) (g) of the said Act vide circular no. 2/5/2001/CV.V General Circular no. 8/2002 dated March 22, 2002 issued by Ministry of Law, Justice and Company Affairs.

iv) The Balance Sheet and the Profit and Loss Account dealt with by this Report are in agreement with the Books of Account.

v) In our opinion, the Balance Sheet, the Profit and Loss Account and the 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 *except as given in Para 4 & 5 above*.

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

a) in the case of the Balance Sheet, of the state of affairs of the Company as at 31st March, 2011;
b) in the case of the Profit and Loss Account, of the loss for the year ended 31st March 2011; and
c) in the case of the Cash Flow Statement, of the Cash Flows for the year ended 31st March 2011.

For and on behalf of	For and on behalf of	For and on behalf of	For and on behalf of
R. Devendra Kumar & Associates	**Kapoor Tandon & Co.**	**P. K. Chopra & Co.**	**PKKG Balasubramaniam & Associates**
Chartered Accountants	Chartered Accountants	Chartered Accountants	Chartered Accountants
FRN : 114207W	FRN : 000952C	FRN : 006747N	FRN : 001547S
Sd/-	Sd/-	Sd/-	Sd/-
D.K. Gupta	**Rajesh Parasramka**	**Tarun Kandhari**	**C. Suresh**
Partner	Partner	Partner	Partner
Membership No. 09032	**Membership No. 074192**	**Membership No. 074852**	**Membership No. 204602**

Place : New Delhi
Dated : 29 November 2011

ANNEXURE TO AUDITOR'S REPORT

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

1. (a) *The records relating to fixed assets including rotables maintained by the company are stated to be in the process of updation with reference to full particulars, quantitative details and location thereof . The Company has not yet updated fair value of assets in the Fixed Assets Register at certain locations and it is informed that the same is in process. The reconciliation of Fixed Asset Register for aircraft rotables and other fixed assets with financial records is stated to be in progress.*

   (b) The Company has a program of physical verification of Fixed Assets on a rotational basis so that every asset is verified once in every two years which in our opinion is adequate. It is observed that during the year, the physical verification has been conducted only at few locations. *The physical verification exercise is stated to be in progress to be in compliance with the laid down procedure*. *In the absence of a complete reconciliation of the results of physical verification with financial records, we are unable to ascertain whether the physical verification to the extent conducted revealed any material discrepancy. (Refer Note No.18)*

   (c) In our opinion and according to the information and explanations given to us, the Company has not disposed off substantial part of Fixed Assets during the year affecting the going concern assumption**.**

2. (a) The Company has a procedure of conducting physical verification of Inventory atleast once in a block of two years, on a perpetual basis.

   (b) The procedure of physical verification of inventories on a perpetual basis by the Management is reasonable. *However, considering the size of the Company and nature of its business the same needs to be strengthened with regard to the frequency. The physical verification conducted during the year is minimal and needs to be considerably enlarged. The Company has not obtained confirmations / certificates in respect of Inventory lying with outside agencies.*

   (c) On the basis of our examination of the Inventory records, in our opinion, the Company is maintaining proper records of Inventory except *at, certain Regions & Stations which, limits the extent of audit due to non availability of requisite inputs, relating to receipts, issue, stocks and at stores with regard to itemized movement etc. The centralized records relating to inventory and consumption maintained at stores need to be fully reconciled with the financial records. (Refer Note No. 25)*

   The discrepancies noticed on physical verification of Inventory, as compared to book records are in the process of reconciliation and adjustment subjecting to scrutiny by the concerned Department and thereafter the same are properly dealt with in the Books of Accounts.

3. (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.

   (b) Consequently, the question of commenting on the rates of interest and the other terms and conditions of the loans granted being prejudicial to the interests of the Company, receipt of regular principal and interest and reasonable steps taken for recovery of principal and interest does not arise.

   (c) 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 Act.

   (d) Consequently, the question of commenting on the rates of interest and the other terms and conditions of the loans taken being prejudicial to the interests of the Company and payment of regular principal and interest does not arise.

4. In our opinion and according to the information and explanations given to us, *except for overall control (without our being in a position to comment upon the adequacy of internal controls) in respect of accounting of Wide Body which are exercised centrally at Head Office level,* there are adequate internal control procedures commensurate with the size of the Company and the nature of its business, for the purchases of Inventory, Fixed Assets and sale of goods and services. *However the implementation of such controls needs to be strengthened. The Company is in the process of reconciling sub-ledgers with the general ledger in respect of Inventory, Sundry Debtors/creditors, staff advances and certain intermediary accounts, etc. (Refer Note No. 30 (a) & (b)). The management needs to take corrective action on continuing failure to improve the weakness in internal control system.*

5. (a) Based on the audit procedures applied by us and according to the information and explanations provided by the management, we are of the opinion that there are no particulars of contracts and arrangements referred to in Section 301 of the Companies Act, 1956 that need to be entered into the Register required to be maintained under that Section.

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

6. In our opinion and according to the information and explanations given to us, the Company has not accepted any Deposits from the public and hence the provisions of Section 58A, 58AA or any other provisions of the Companies Act, 1956, read with the Rules framed thereunder are not applicable.

7. In our opinion, the internal audit function has to be made commensurate with the size of the Company and nature of its business. *In respect of Wide Body operations the Internal Audit coverage during the year was minimal. Internal Audit function needs to be strengthened for timely performance, reporting, compliance, extending the scope to the major online Stations & Central Accounts Office, emphasizing on critical areas and taking timely monitoring actions at the Headquarter, so as to ensure effective internal controls. The closing balances as appearing in the books are required to be reviewed through internal audit.*

8. As per the information and explanations given to us, the maintenance of Cost Records has not been prescribed by the Central Government under Section 209(1)(d) of the Companies Act, 1956.

9. (a) According to the information and explanations given to us and on the basis of our examination of the Books of Account, during the year the Company has been generally regular in depositing undisputed Statutory Dues, including Provident Fund, Employees' State Insurance, Income Tax, Sales Tax, Wealth Tax, Customs Duty, Cess and other statutory dues applicable to it with the appropriate authorities except as stated below :

- In respect of foreign stations, since the records are kept at the stations, we are unable to comment whether the dues are timely deposited.
- The Provident Fund dues pertaining to the employees of the contractors / sub-contractors aggregating Rs. 29.8 million are kept in a separate bank account in the absence of their registration numbers.
- The Company is generally regular in depositing Tax Deducted at Source. *However, at certain locations the Company has not reconciled Tax deducted at Source and payable as at year end. The Company has not deducted tax on certain provisions made at the year end.*
- *The Company is in the process of reconciliation of Service Tax recoverable and Service Tax payable.*
- *The Service Tax including Input credit to be availed and TDS, EPF, ESIS, Profession tax and airport tax accounts are being reconciled.*
- *As on 31/03/2011, there are undisputed service tax dues amounting to Rs. 1826.5 million and income tax dues of Rs. 79.15 million .outstanding for more than six months.*

As stated above, in the absence of reconciliation, we are unable to determine whether there are any other undisputed dues payable in respect of above as at 31st March, 2011 for a period of more than six months from the date they became payable.

(b) According to the information and explanations given to us, there are no dues outstanding of Sales Tax, Income Tax, Customs Duty, Wealth Tax, Service Tax, Excise Duty or cess on account of any dispute other than mentioned below :

Name of Statute	Amount (Rs. in Million)	Nature and Forum where dispute is pending
Income Tax Act, 1961	1,069.2	Demand Notices received by the Comapny which are under Appeal
Customs Duty and Service Tax	5,174.2	Customs duty and Service Tax demanded by the Tax Authorities
Municipal Taxes / House Tax / Octroi	170.1	Property Taxes / House Tax / Octroi demanded by Municipal Authorities

10. *Though five years have not elapsed since the amalgamated Company came into existence, the accumulated losses are more than the net worth of the Company and Cash Losses have been incurred in the current and previous financial years. However, the accounts of the Company have been prepared on the basis of going concern basis based on the assumption that the company is going to turn around and have improved financial performance in future. (Refer Note No. 45).*

11. According to the information and explanations given to us and based on the documents and records produced to us, the Company has not defaulted in repayment of dues to banks and financial institutions. However as on the date of the Balance Sheet, there were overdue loans of Rs. 14224.50 million outstanding for payment. It was also observed that there were delays in repayment of interest and principal during the year.

12. According to the information and explanations given to us and based on the documents and records produced to us, the Company has not granted loans and advances on the basis of security by way of pledge of shares, debentures and other securities.

13. In our opinion and according to the information and explanations given to us, the nature of activities of the Company does not attract any special statute applicable to chit fund and nidhi/ mutual benefit fund/ societies.

14. The Company does not deal in shares, securities, debentures and other investments.

15. According to the information and explanations given to us, the Company has given guarantees for loans taken by its subsidiaries from banks. The terms of such guarantee are not prima facie prejudicial to the interests of the Company.

16. According to the information and explanations given to us, the Term Loans were applied for the purpose for which the loans were obtained.

17. *According to the information and explanations given to us and on an overall review of the Balance Sheet and Cash Flow of the Company, we report that out of Short Term Loans taken for Working Capital, an amount of Rs.10090.9 million have been used for long term purposes.*

18. The Company has not made any preferential allotment of shares to parties or Companies covered in the Register maintained under Section 301 of the Companies Act, 1956.

19. There are no secured debentures issued during the year.

20. The Company has not raised any money through public issue during the year.

21. During the course of our examination of the books and records of the Company during the year, carried out in accordance with the generally accepted auditing practices in India, we have neither come across any instances of material fraud being noticed or reported on or by the Company nor we have been informed of any such instances by the management.

For and on behalf of	For and on behalf of	For and on behalf of	For and on behalf of
R. Devendra Kumar & Associates	**Kapoor Tandon & Co.**	**P. K. Chopra & Co.**	**PKKG Balasubramaniam & Associates**
Chartered Accountants	Chartered Accountants	Chartered Accountants	Chartered Accountants
FRN : 114207W	FRN : 000952C	FRN : 006747N	FRN : 001547S
Sd/-	Sd/-	Sd/-	Sd/-
D.K. Gupta	**Rajesh Parasramka**	**Tarun Kandhari**	**C. Suresh**
Partner	Partner	Partner	Partner
Membership No. 09032	**Membership No. 074192**	**Membership No. 074852**	**Membership No. 204602**

Place : New Delhi
Dated : 29 November 2011

MANAGEMENT REPLIES TO THE AUDIT REPORT OF THE STATUTORY AUDITORS' FOR THE FINANCIAL YEAR 2010-11.

Sr. No,	Audit Observations	Management Comments
01.	We have audited the attached Balance Sheet of Air India Ltd.(Formerly Known as National Aviation Company of India Limited), as at 31st March 2011, the Profit and Loss Account of the Company for the year ended 31st March 2011 and the Cash Flow Statement for the year ended on that date and 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.	This is a statement of fact
02.	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 misstatement. 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.	This is a statement of fact
03.	As required by the Companies (Auditor's Report) Order, 2003 (as amended), issued by the Central Government in terms of Section 227 (4A) of the Companies Act, 1956, and on the basis of such checks as we considered appropriate and as per information and explanations given during the course of our audit, we annex hereto a Statement on the matters specified in paragraphs 4 and 5 of the said Order.	This is a statement of fact
04.	We further Report that :	
	i) *As stated in Note No. 34 the visits to foreign stations/ Branches of the company could not be conducted. These Visits were meant to audit the original records maintained at these stations/branches and to examine the internal controls. Therefore, our audit of the accounts has been conducted subject to the said limitation and in respect of certain foreign station for which some of the records were produced locally, has remained, restricted to examinations of records produced before us. Other foreign stations not visited by us, have remained unaudited.*	The Management had put up to the Audit Committee the visit of Auditors to certain foreign stations in the 10th meeting held on 25th April 2011. However, a reference was made to C&AG to keep the C&AG's office apprised of these foreign visits and the allowances to be paid to them during such visits and seeking their permission to permit the Auditors to do travel to foreign stations . However, no clearance was received from the C&AG's office. In view of this, we had requested the respective Accounts Managers of these foreign offices to come to India with relevant vouchers for the perusal and scrutiny of Statutory Audit. These vouchers were then verified by the Statutory Auditors
	ii) As stated in Note No.23,24,25,30,37,46 regarding confirmations and reconciliation of receivables and payables and reconciliation of various balances in subsidiary accounts at certain locations, we are unable to comment on the impact of adjustments arising out of reconciliation / confirmation of such balances, on the Financial Statements. The impact of the same on the Financial Statements is not ascertainable.	Letters requesting confirmation were sent out to vendors and other Sundry Debtors and Sundry Creditors. In a few cases, wherever differences were noticed on balance confirmation from parties necessary reconciliation is under process and adjustments, if any, would be carried out.

Sr. No.	Audit Observations	Management Comments
	iii) Loans and Advances includes an amount of Rs.642.60 million paid to lessors towards maintenance charges of Aircrafts which have been accounted for as prepaid expenses as per companies accounting policy, to be charged to the profit and loss account when the maintenance is actually carried out as the amount paid towards maintenance charges have been calculated and accrued on the basis of flight cycles/ hour flown, the amount paid should have been treated as expenditure as per accrual basis of accounting. This has resulted in overstatement of prepaid expenses and under statement of loss for the year by Rs.642.60 million.	For the aircraft acquired on lease, the Company contributes to Maintenance Reserve, if it is provided for, in the lease agreement. Such maintenance reserve are drawn when the aircraft / engines /landing gears go for major maintenance either at our workshop or to service providers abroad. As and when these maintenance takes place the P&L account of the respective years are debited with the maintenance expenditure based on the accrual concept. There is, therefore, no under statement of loss or over statement of prepaid expenses for the year 2010-11 and any unrecorded liability in this regard.
	iv) As stated in Note No. 30(d) certain closing balances including liabilities in Foreign currencies are not stated at FEDAI rates at the year end, which is not in compliance with the requirements of AS-11.	This is a statement of fact. Liabilities recorded under Forward Sales Account (FSA) are in different currencies. In view of the complexity and conversion of different currencies, certain closing balances under certain heads of accounts in foreign currencies are not stated at FEDAI rates at the year end and a suitable disclosure is made in 30(d). The impact of translation of these balances is not ascertainable.
	v) No provision has been made towards interest /penalty if any payable towards outstanding dues for service tax (Refer Note No. 30(g) and on outstanding dues with oil companies (Refer Note No. 31(a), as on the Balance Sheet date.	In view of the financial crunch faced by the Company, the Service Tax dues are being paid in a phased manner. However, as and when equity support is received from the Government, following the Financial Restructuring Plan (FRP), efforts to liquidate all the statutory dues in a time bound manner will be made. As regards interest to suppliers, the matter is still under negotiation with those suppliers who have charged interest on their over due account and this would subject to a negotiated settlement .
05.	Attention is invited to :	
	i) *As stated in Note No.44, the Company has been carrying the net balance of deferred tax asset amounting to Rs.28425.2 million which was recognized in years 2007-08 & 2008-2009. In the subsequent years deferred tax asset has been recognized only to the extent of deferred tax liabilities as a prudent measure. Since the virtual certainty as stipulated under AS-22 had not been established in the year 2009-10, the carrying amount of deferred tax asset should have been charged off to the Profit & Loss Account in the year 2009-10 itself. Consequent to above, the opening balance of the carried forward losses has been understated to the extent of Rs. 28425.2 million and balance of deferred tax asset has been overstated to that extent. Further during the year deferred tax has been recognized to the extent of deferred tax liability amounting to Rs. 9,768.1 Million. Though the management is confident of realizing the deferred tax asset based on the turn around measures which are at various stages of implementation as stated in the said Note No.44, the impact thereof as expected by the management cannot be conclusively established and therefore it has not been possible for us to*	The Company has taken several initiatives towards cost cutting and revenue enhancement during the year which are expected to result in improved operational performance. These measures include, inter alia, complete rationalization of all routes and elimination of route networks involving parallel operations, withdrawal of certain loss-making routes, induction of brand new fleet with IFE facilities on several domestic and international routes, phase out of old aircraft and return of leased aircraft, resulting in consequential reduction in maintenance cost. Freezing of employment in non-operational areas, improvement in the utilization of new fleet, deployment of 747-400 especially for VVIP operations, closure of overseas offline offices at certain locations, upgradation of IT infrastructure and implementation of “Quick win IT solutions”, operationalization of subsidiary companies such as GH and MRO activities and transfer of manpower and equipment to these subsidiary companies, implementation of the FRP with the approval of RBI to convert short term debt into long term debt, reduction of interest rates, issue of cumulative redeemable preference shares (CRPS) at dividend of 8%, improvement in

Sr. No.	Audit Observations	Management Comments
	conclude as to whether there is a virtual certainty as envisaged under the provisions of AS-22 issued by ICAI. We have therefore not been able to form our opinion in respect of realisability of the deferred tax asset recognized during the year. The impact of the above, if any, on the loss for the year could not be ascertained.	operational efficiencies leading to enhancement load factor and yields. The Group of Ministers (GOMs) overseeing AI's Turn-around plan/FRP appointed a Group of Officers (GOO) from the Finance Ministry to independently vet the Turn-around plan of AI and the Group of Officers (GOO) submitted their report to GOMs in the meeting held on 28th October 2011. This GOO has set a target of PLF at 73% by 2015 and 75% by 2020. GOO have also recommended infusion of equity of Rs.67500 million in FY12, infusion of equity to fund cash deficits up to 2021 and equity infusion to fund principal and interest repayments in respect of guaranteed aircraft loan and providing buy back guarantee for CRPS (Cumulative Redeemable Preference Shares) being issued to the Lendors of Short term Working Capital. Due to these measures, the airlines will turn EBIDTA positive in 2013 and cash positive by 2018 and PBT / net worth positive by 2020. The Management is, therefore, confident of utilizing the net deferred tax asset to the extent of Rs. 28425.2 million already recognised during the initial 2 years i.e. 2007-08 and 2008-09 against the future tax liability. As a prudent measure, the company has ceased to recognise the excess of Deferred Tax Asset (DTA) over Deferred Tax Liability (DTL) w.e.f. 31.3.2010. ie Deferred Tax Asset is recognized only to the extent of the Deferred Tax Liability. Due to these initiatives which have been taken and at are at various stages of implementation and with the support from the Government and the Regulator , the Company plans to have a sustainable profit in the near future to set off against the carry forward losses.
	ii) *Note No. 45 regarding the financial statements of the Company having been prepared on a going concern basis, notwithstanding the fact that its net worth is completely eroded. The appropriateness of the said basis is interalia dependent on Company's ability to obtain equity from the Government for meeting its obligations and improved operational performance.*	The Company has been facing severe liquidity crunch due to various factors, such as, global recession, escalating fuel cost, high interest charges, increased liability due to wage and gratuity provision, higher depreciation due to expanding fleet and increased competition from low cost carriers. However the Management of the company is confident that with the support of the administrative machinery and GOI, it would be possible to revive the Company by implementing the Turn-around plan/FRP. This equity infusion from Government will enhance and improve the debt equity ratio of the Company and provide the much needed liquidity to carry on with its capacity expansion by way of addition of 787 fleet. Besides this it is expected that the FRP would result in relief from high interest cost loans but extending their maturities and linking interest rates to base rates and issue of CRPS (Cumulative Redeemable Preference Shares Capital) which are redeemable after 15 years. These measures, apart from the hiving off of Ground handling and MRO business, will destress the cash flow and provide liquidity for sustaining financial and operating turnaround in performance. In view of the support received from various Ministries in the Government including Equity Infusion over a period of time upto 2019, the accounts have been prepared on a

Sr. No.	Audit Observations	Management Comments
		"Going Concern" basis since in the opinion of the Management, there is a certainty of recovery in the financial and operating performance.
	iii) Note No. 6 & 7 regarding pending registration formalities and title deeds being obtained in respect of certain properties and Note No.10 regarding reworking of the depreciation on certain assets.	Reply for 6 : This is a statement of fact. Reply for 7 : The Company is in process of compilation of the original title deeds. In some cases, the Company has already obtained the duplicate copies which are on record and were made available to the Auditors during the course of audit. Reply for 10 : On incorporation of National Aviation Company of India Limited on 1st April 2011, the Company had reworked the balance life of these assets purchased prior to March 1994 (on March 01, 1994 the erstwhile Air India and Indian Airlines were converted into Limited Companies as per Companies Act, 1956) were not computed as per Schedule XIV. The Company is in the process of ascertaining the life of the assets as per Schedule XIV.
	iv) As stated in Note No. 12, fees associated with bridge/ long term delivery financing being capitalized after the commercial operations, not being in accordance with AS-16.	The delivery financing of the aircraft is sometimes delayed due to formalities associated with the issue of US Exim and GOI guarantee. In the meanwhile the financing of the aircraft takes place through Bridge financing . As soon as the delivery financing is in place it replaces the Bridge financing. All costs associated with the delivery financing are then capitalized to the asset like Exposure fees, legal fees and other associated costs.
	v) Note No. 16 regarding impairment assessment being done in respect of certain assets in accordance with AS-28.;	This is a statement of fact.
	vi) Note No. 20 regarding additional premium payable to CIDCO towards non development of surplus land being capitalized.;	This is a statement of fact as the Company is in possession of the property in Nerul.
	vii) Note. No. 21 regarding accounting for claim of liquidated damages on account of delay in deliveries of aircraft, accrual of which is dependent on delivery of aircraft.	Accounting of liquidated damages is done on most conservative basis. The interim accounting for the compensation package is done as per the compensation package offered by the vendor which is being further discussed and negotiated. Adequate disclosure to this effect has been given in the Notes to Accounts.
	viii) Note No. 27 and 30 regarding improvements required in internal control at various locations.	The Management continuously endeavours to carry out improvement in internal controls at various locations. The Company is in the process of installing a RAMCO system for online inventory management which should go live from April 2012. This system would remove the shortcomings of the present system in stores consumption by recording online and on a real time basis consumption figures for both Wide Body and Narrow Body aircraft. Similarly, at the stations, efforts are continuously made by the Company to strengthen and improve internal controls. Periodic checks are also conducted by Internal Audit and by Vigilance teams to ensure that controls are progressively strengthened and proper procedures and policies are observed as part of Corporate Governance.

Sr. No.	Audit Observations	Management Comments
	ix) Note No. 28, regarding machinery spares meant for modification of aircraft (amount unascertained) are continued to have been included as inventory.	This is a statement of fact.
	x) Note No. 29 regarding certain items being accounted for on cash basis.	There are certain reimbursements which are not recognizable in short, accrual system and hence the Management recognizes the same on a cash basis. However, adequate care is taken to ensure that all outstanding liabilities are provided for at the end of the year.
	xi) Note No. 30(j) relating to redelivery of aircraft amounting to Rs. 792.0 million charged off to profit & loss account.	This is a statement of fact.
	xii) Note No. 32 regarding manufacturer's credit amounting to Rs. 175.12 million being taken to revenue instead of adjusting to the cost of assets.	Credits allowed by the Manufacturer are reviewed and evaluated by the Company. Direct identifiable credits are adjusted towards the cost of the asset while other credits which are in the nature of operational support are credited to Profit & Loss Account. The aircraft Purchase Agreement with Boeing reflects the following credits : 1. Special Credit Memorandum 2. Closing Credit Memorandum. As mentioned, Special Credit Memorandum which are in the form of trade discount extended by the manufacturer and which is directly related to the cost of the asset is reduced from the cost of the asset. While the closing credit memorandum which is a customer based credit extended for operational support and not linked with the aircraft price is credited to Profit & Loss Account.
	xiii) Note No. 41 of Schedule-X regarding non-cognizance of losses incurred by the subsidiary companies and consequently not providing for diminution in the value of Investments therein to be in compliance with AS-13.	Information regarding the accumulated losses of the Company is given in the statement attached as required u/s 212 of the Companies Act 1956. Non-recognition of losses incurred on wholly owned subsidiaries has been disclosed in the Notes to Accounts.. Since these companies are Going Concern it was considered not necessary to provide for diminution in the value of the assets in the parent company.
	xiv) Note No. 47 regarding adhoc provision towards wage arrears.	The liability for wage arrears up to 31.12.2006 is being reviewed taking into consideration the settlements/ understandings which have been reached with various unions post 2007 relating to wage agreements prior to 31.12.2006. . Pending this, a reasonable ad hoc provision towards wage settlement for the period up to 31.12.2006 had been made. The adjustments will be given effect in the year in which the actual payments are made. Since the company has been incurring continuous losses since January 2007, no provision has been made for wage revision as per DPE guidelines applicable to loss-making PSUs.
	We further Report that in view of the observations made by us in the paragraphs 4 & 5 above, considering the impact to the extent quantifiable, Loss for the year is understated by Rs.817.72 million, Accumulated losses are understated by Rs.28,425.20 million, fixed asset are overstated by Rs.175.12 million with consequential impact	This is a statement of fact

Sr. No.	Audit Observations	Management Comments
	on loss for the year being not determined precisey, Current Assets, Loans and Advances are overstated by Rs. 642.60 million and Deferred Tax Asset would have been Rs. nil	
06.	Further to our comments in the Annexure referred to in para (3) and subject to our observations in para 4 & 5 above, we Report that :	
	i) 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.	This is a statement of fact.
	ii) 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 these books maintained at Central Accounts Office of the Company, incorporating the information/returns received from the stations and Reports received from outsourced agencies and found to be generally adequate for the purpose of our audit.	This is a statement of fact.
	iii) The Company being a Government Company as defined in Section 617 of the Companies Act, 1956, is exempted from the applicability of the provisions of the Section 274 (1) (g) of the said Act vide circular no. 2/5/2001/CV.V General Circular no. 8/2002 dated March 22, 2002 issued by Ministry of Law, Justice and Company Affairs.	This is a statement of fact.
	iv) The Balance Sheet and the Profit and Loss Account dealt with by this Report are in agreement with the Books of Account.	This is a statement of fact.
	v) In our opinion, the Balance Sheet, the Profit and Loss Account and the 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 *except as given in Para 4 & 5 above*.	This is a statement of fact.
	vi) In our opinion and to the best of our information and according to the explanations given to us, the said Financial Statements subject to paragraphs 4 & 5 above and read together with Notes thereon, give the information required by the Companies Act, 1956, in the manner so required and give a true and fair view in conformity with the accounting principles generally accepted in India :	This is a statement of fact.
	a) in the case of the Balance Sheet, of the state of affairs of the Company as at 31st March, 2011;	This is a statement of fact.
	b) in the case of the Profit and Loss Account, of the loss for the year ended 31st March 2011; and	This is a statement of fact.
	c) in the case of the Cash Flow Statement, of the cash flows for the year ended 31st March 2011.	This is a statement of fact.

(ANNEXURE REFERRED TO IN PARAGRAPH (3) OF THE REPORT OF EVEN DATE OF AIR INDIA LIMITED FOR THE YEAR ENDED ON 31ST MARCH 2011)

Sr. No.	Audit Observations	Management Comments
1. a)	The records relating to fixed asset including rotables maintained by the Company are stated to be in the process of up-dation in reference to full particulars, quantitative details and location thereof. The Company has not yet updated fair value of assets in the Fixed Assets Register at certain locations and it is informed that the same is in process. The reconciliation of Fixed Asset Register for aircraft rotables and other fixed assets with financial records is stated to be in progress.	The particulars and quantitative details for aircraft rotables are available in the existing system. Progress was achieved in the updation of the fixed assets register along with the fair value of assets at all locations. The Company is in the process of introducing SAP ERP system effective 1.4.2012 and the balances in the new ERP would reflect the fair value of all the assets.
b)	The Company has a program of physical verification of Fixed Assets on a rotational basis so that every asset is verified once in every two years which in our opinion is adequate. It is observed that during the year, the physical verification has been conducted only at few locations. The physical verification exercise is stated to be in progress to be in compliance with the laid down procedure. In the absence of a complete reconciliation of the results of physical verification with financial records, we are unable to ascertain whether the physical verification to the extent conducted revealed any material discrepancy. (Refer Note No.18)	Physical verification is an ongoing process. No material discrepancies were observed between the books of accounts and the physical inventory of fixed assets. Discrepancies as and when observed are adjusted in the books after following due process/procedure.
c)	In our opinion and according to the information and explanations given to us, the Company has not disposed off substantial part of Fixed Assets during the year affecting the going concern assumption.	This is a statement of fact.
2. a)	The Company has a procedure of conducting physical verification of Inventory atleast once in a block of two years, on a perpetual basis.	This is a statement of fact.
b)	The procedure of physical verification of inventories on a perpetual basis by the Management is reasonable. However, considering the size of the Company and nature of its business the same needs to be strengthened with regard to the frequency. The physical verification conducted during the year is minimal and needs to be considerably enlarged. The Company has not obtained confirmations / certificates in respect of Inventory lying with outside agencies.	Audit comments are noted for action. The Company is in the process of implementing Maintenance, Repair & Overhaul (MRO) software package by M/s. RAMCO whereby the inventory lying with outside parties would be tracked closely and confirmation would be obtained at the year end.
c)	On the basis of our examination of the Inventory records, in our opinion, the Company is maintaining proper records of Inventory except at certain Regions & Stations which, limits the extent of audit due to non availability of requisite inputs, relating to receipts, issue, stocks and at stores with regard to itemized movement etc. The centralized records relating to inventory and consumption maintained at stores need to be fully reconciled with the financial records. (Refer Note No. 25) The discrepancies noticed on physical verification of Inventory, as compared to book records are in the process of reconciliation and adjustment subjecting to scrutiny by the concerned Department and thereafter the same are properly dealt with in the Books of Accounts.	The new inventory MRO package would address these issues through proper training at various stations. This will be operational effective 1.4.2012.

Sr. No.	Audit Observations	Management Comments
3. 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.	This is a statement of fact.
b)	Consequently, the question of commenting on the rates of interest and the other terms and conditions of the loans granted being prejudicial to the interests of the Company, receipt of regular principal and interest and reasonable steps taken for recovery of principal and interest does not arise.	This is a statement of fact.
c)	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 Act.	This is a statement of fact.
d)	Consequently, the question of commenting on the rates of interest and the other terms and conditions of the loans taken being prejudicial to the interests of the Company and payment of regular principal and interest does not arise.	This is a statement of fact.
4.	In our opinion and according to the information and explanations given to us, except for overall control (without our being in a position to comment upon the adequacy of internal controls) in respect of accounting of Wide Body which are exercised centrally at Head Office level, there are adequate internal control procedures commensurate with the size of the Company and the nature of its business, for the purchases of Inventory, Fixed Assets and sale of goods and services. However the implementation of such controls needs to be strengthened. The Company is in the process of reconciling sub-ledgers with the general ledger in respect of Inventory, Sundry Debtors/creditors, staff advances and certain intermediary accounts, etc. (Refer Note No. 30 (a) & (b). The management needs to take corrective action on continuing failure to improve the weakness in internal control system.	The Company is in the process of implementation a Maintenance, Repairs & Overhaul (MRO) software system whereby online tracking of the inventory at various stations and regions would be possible and reconciliation of sub ledger with general ledger is feasible. This would be interfaced into ERP SAP system proposed to be introduced throughout the organization. The system would enable online reconciliation of various expenditures, receivables and payables at the base level and ensure improved internal controls at various levels.
5. a)	Based on the audit procedures applied by us and according to the information and explanations provided by the management, we are of the opinion that there are no particulars of contracts and arrangements referred to in Section 301 of the Companies Act, 1956 that need to be entered into the Register required to be maintained under that Section.	This is a statement of fact.
b)	Hence, the question of commenting whether the transactions made in pursuance of such contracts or arrangements, were made at prices which are reasonable having regard to prevailing market prices at the relevant time does not arise.	This is a statement of fact.
6.	In our opinion and according to the information and explanations given to us, the Company has not accepted any Deposits from the public and hence the provisions of Section 58A, 58AA or any other provisions of the Companies Act, 1956, read with the Rules framed thereunder are not applicable.	This is a statement of fact.

Sr. No.	Audit Observations	Management Comments
7.	In our opinion, the internal audit function has to be made commensurate with the size of the Company and nature of its business. In respect of Wide Body operations the Internal Audit coverage during the year was minimal. Internal Audit function needs to be strengthened for timely performance, reporting, compliance, extending the scope to the major online Stations & Central Accounts Office, emphasizing on critical areas and taking timely monitoring actions at the Headquarter, so as to ensure effective internal controls. The closing balances as appearing in the books are required to be reviewed through internal audit.	Internal Audit department draws a comprehensive Minimum Audit Program (MAP) covering all the activities and the extent of their verification includes stations in India and abroad. The scope of internal audit has been adequately defined in the MAP which is pursued regularly by all internal audit units in various regions/Registered Office/Headquarters. The scope of regional audit was expanded during the year to cover wide body operations apart from enhancing the levels of internal audit for narrow body operations. However, Internal Audit will be further strengthened in consultation with the Statutory Auditors so that it is made commensurate with the size and nature of the Company's business.
8.	As per the information and explanations given to us, the maintenance of Cost Records has not been prescribed by the Central Government under Section 209(1)(d) of the Companies Act, 1956.	This is a statement of fact.
9. a)	According to the information and explanations given to us and on the basis of our examination of the Books of Account, during the year the Company has been generally regular in depositing undisputed Statutory Dues, including Provident Fund, Employees' State Insurance, Income Tax, Sales Tax, Wealth Tax, Customs Duty, Cess and other statutory dues applicable to it with the appropriate authorities except as stated below :	This is a statement of fact.
	• In respect of foreign stations, since the records are kept at the stations, we are unable to comment whether the dues are timely deposited.	The Company has complied with timely payment of Statutory dues and other obligations in terms of local laws at foreign stations.
	• The Provident Fund dues pertaining to the employees of the contractors / sub-contractors aggregating Rs.29.8 million are kept in a separate bank account in the absence of their registration numbers.	PF dues pertaining to employees of the contractors / sub contractors are kept in a separate bank account since the issue of contract labour is subjudice. The Company has complied with TDS provisions on all ascertainable/ determinable liabilities and deposited the same with the authorities.
	• The Company is generally regular in depositing Tax Deducted at Source. However, at certain locations the Company has not reconciled Tax deducted at Source and payable as at year end. The Company has not deducted tax on certain provisions made at the year end.	The reconciliation of TDS due and payable is a continuous process. The TDS is deducted at the time of actual payment.
	• The Company is in the process of reconciliation of Service Tax recoverable and Service Tax payable.	This is a statement of fact.
	• The Service Tax including Input credit to be availed and TDS, EPF, ESIS, Profession tax and airport tax accounts are being reconciled.	This is a statement of fact.
	• As on 31/03/2011, there are undisputed service tax dues amounting to Rs.1826.5 million and income tax dues of Rs.79.15 million outstanding for more than six months.	Due to liquidity crunch, the company has not been able to make timely deposit of service tax dues. The Company, would however, endeavour to pay all the statutory obligations once the equity from the Government is received pursuant to the implementation of the FRP.
	As stated above, in the absence of reconciliation, we are unable to determine whether there are any other	All dues are duly computed and undisputed paid regularly based on inputs received from stations

<table>
<tr><th>Sr. No.</th><th>Audit Observations</th><th>Management Comments</th></tr>
<tr><td></td><td>undisputed dues payable in respect of above as at 31st March, 2011 for a period of more than six months from the date they became payable.</td><td></td></tr>
<tr><td>b)</td><td>According to the information and explanations given to us, there are no dues outstanding of Sales Tax, Income Tax, Customs Duty, Wealth Tax, Service Tax, Excise Duty or cess on account of any dispute other than mentioned below :
<table>
<tr><th>Name of Statute</th><th>Amount (Rs. in Million)</th><th>Nature and Forum where dispute is pending</th></tr>
<tr><td>Income Tax Act 1961</td><td>1,069.2</td><td>Demand Notices received by the Company which are under Appeal.</td></tr>
<tr><td>Customs Duty and Service Tax</td><td>5,174.2</td><td>Custom Duty and Service Tax demanded by the Tax Authorities.</td></tr>
<tr><td>Municipal Taxes / House Tax / Octroi</td><td>170.1</td><td>Property Taxes / House Tax / Octroi demanded by Municipal Authorities</td></tr>
</table>
</td><td>This is a statement of fact.</td></tr>
<tr><td>10.</td><td>Though five years have not elapsed since the amalgamated Company came into existence, the accumulated losses are more than the net worth of the Company and Cash Losses have been incurred in the current and previous financial years. However, the accounts of the Company have been prepared on the basis of going concern basis based on the assumption that the company is going to turn around and have improved financial performance in future (Refer Note No. 45).</td><td>This is a statement of fact. The Company continues to operate on a Going Concern basis. The Company has a Turnaround and Financial Restructuring Plan which involves improvement of the operational efficiencies and induction of Equity by the Government.</td></tr>
<tr><td>11.</td><td>According to the information and explanations given to us and based on the documents and records produced to us, the Company has not defaulted in repayment of dues to banks and financial institutions. However as on the date of the Balance Sheet, there were overdue loans of Rs.14,224.50 million outstanding for payment. It was also observed that there were delays in repayment of interest and principal during the year.</td><td>Due to liquidity crunch, the Company was not able to make timely payment of short term loans availed from banks on due dates. However, the entire amount of Rs.14,224.50 million was repaid subsequently.</td></tr>
<tr><td>12.</td><td>According to the information and explanations given to us and based on the documents and records produced to us, the Company has not granted loans and advances on the basis of security by way of pledge of shares, debentures and other securities.</td><td>This is a statement of fact.</td></tr>
<tr><td>13.</td><td>In our opinion and according to the information and explanations given to us, the nature of activities of the Company does not attract any special statute applicable to chit fund and nidhi/ mutual benefit fund/ societies.</td><td>This is a statement of fact.</td></tr>
<tr><td>14.</td><td>The Company does not deal in shares, securities, debentures and other investments.</td><td>This is a statement of fact.</td></tr>
</table>

Sr. No.	Audit Observations	Management Comments
15.	According to the information and explanations given to us, the Company has given guarantees for loans taken by its subsidiaries from banks. The terms of such guarantee are not prima facie prejudicial to the interests of the Company.	This is a statement of fact.
16.	According to the information and explanations given to us, the Term Loans were applied for the purpose for which the loans were obtained.	This is a statement of fact.
17.	According to the information and explanations given to us and on an overall review of the Balance Sheet and Cash Flow of the Company, we report that out of Short Term Loans taken for Working Capital, an amount of Rs.10,090.9 millions have been used for long term purposes.	This is a statement of fact.
18.	The Company has not made any preferential allotment of shares to parties or Companies covered in the Register maintained under Section 301 of the Companies Act, 1956.	This is a statement of fact.
19.	There are no secured debentures issued during the year.	This is a statement of fact.
20.	The Company has not raised any money through public issue during the year.	This is a statement of fact.
21.	During the curse of our examination of the books and records of the Company during the year, carried out in accordance with the generally accepted auditing practices in India, we have neither come across any instances of material fraud being noticed or reported on or by the Company nor we have been informed of any such instances by the management.	This is a statement of fact.