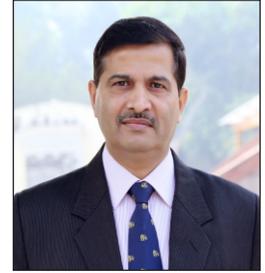




## *Chairman's Message*

Dear Shareholders,

It gives me great pleasure to present to you the 8<sup>th</sup> Annual Report of the Company for the year 2014-15.



I am proud to share with you that we have successfully completed one year of our partnership with Star Alliance Network. We were the first airline from India to become a part of this prestigious Alliance. It has been an interesting one year which was possible due to your unswerving faith in the value of this partnership. The CEO of Star Alliance during his recent speech on Aviation Day (14 July 2015) at Delhi highly appreciated our performance. Quote "We are proud to have Air India as a member of our team. I am convinced that Air India has the right ingredients, people, skills, experience and commitment to firmly establish the strength of the Maharajah's brand in the ranks of global airline community" Unquote. Being a member of this alliance gave all of us an opportunity to dazzle the world with our hospitality, service and quality. Our entry into Star Alliance, last year, had marked the rebirth of Brand Air India on the world stage and we need to cement our position amongst the world's best airlines with our improved performance. We have successfully completed one year as a member of this prestigious alliance.

Air India has witnessed a significant rise in international passenger transfers from Star Alliance member airlines on our code-share flights.

The last one year has been marked by tremendous improvements in every field. Financially we have improved. Our losses have declined, our revenues have increased, our Passenger Load Factor has risen and there has been robustness in our operations. There has been peace at all levels and the trust between Management and employees continues to grow. Our greatest achievement in the previous year has been the historic evacuation of beleaguered Indians in Yemen which brought accolades for Air India from all quarters, including the Hon'ble Prime Minister. Similarly, our historic efforts to help the people in our neighbouring country of Nepal during the earthquake was widely appreciated and praised.

I wish to now present the Civil Aviation scenario globally and within India to give a brief background and the circumstances which had an impact on the results of Air India Limited for the financial year 2014-15 :

### **CIVIL AVIATION SCENARIO**

#### **World**

The airline industry had another strong year in 2014. Net post tax profit for 2014 was USD 16.4 billion, a 2.2% margin on revenues. This was the fifth successive year of profitability and it builds on the USD 10.6 billion profit and 1.5% profit margin in 2013. The air transport industry's profitability in 2014 is owed primarily to improving global economic conditions which underpinned robust growth in passenger and air cargo demand. Lower fuel costs also helped. Jet fuel averaged USD 116.6 a barrel in 2014, down 6% on the 2013 average price of USD 124.5 a barrel. In 2014, demand rose 5.9% compared to the full year of 2013, which was above the 10 year average growth rate of 5.6% and the 5.2% annual growth experienced in 2013 compared to 2012. Capacity rose 5.6% with the result that load factor climbed 0.2% points to 79.7%. Overall a record 3.3 billion passengers travelled during 2014 – approximately 170 million more than in 2013. International passenger traffic rose 6.1% compared to 2013. At 80%, the passenger load factor in 2014 stayed close to the record high levels of 2013.

Cargo markets showed solid improvement in 2014. The upturn in the global economic cycle helped bolster confidence and international trade and therefore heightened demand for air freight. This led to a 5.8% expansion in Freight Tonne Kilometers (FTKs) but the freight load factor remained low at 45.7%. Capacity meanwhile increased 3.7% for the year mostly among airlines in Asia-Pacific. There are almost 52000



scheduled airport pairs and that connectivity resulted in goods worth USD 6.8 trillion being carried by air in 2014. Total air freight tonnage for the year exceeded 51 million metric tons. The challenges for cargo included excess capacity because of the increased number of passenger aircraft with bellyhold capacity.

**Indian Civil Aviation Scenario:**

Indian aviation sector is the world's ninth largest civil aviation market and ranks fourth in domestic passenger volume. The civil aviation market in India is all set to become the world's third largest by 2020 and expected to be the largest by 2030.

In India's airports sector, total passenger traffic stood at a 169 million in Financial Year 2014 registering an increase of 5.9% and is expected to touch 209 million by Financial Year 2017. Total freight traffic registered a compound annual growth rate (CAGR) of 6.2% over Financial Year 2006-2014. Domestic freight traffic increased at a CAGR of 7.1% over Financial Year 2006-2014 while international freight traffic rose 5.8% over the same period.

The Government of India envisions airport infrastructure investment of USD 11.4 billion under the Twelfth Five Year Plan (2012-17). It has also allowed 100% foreign direct investment (FDI) under automatic route for Greenfield projects and 49% FDI for foreign carriers. Also, the repair and operations (MRO) business in India, which is currently worth USD 700 million is estimated to grow over USD 1.5 billion by 2020..

The civil aviation industry in India has ushered in a new era of expansion driven by factors such as low cost carriers, modern airports, foreign direct investments in domestic airlines, cutting edge information technology interventions and a growing emphasis on regional connectivity. In terms of market size, Indian civil aviation industry is amongst the top 10 in the world with a size of around USD 16 billion.

Some of the major investments and developments in the Indian aviation sector include planning by Boeing to set up an aircraft manufacturing base in India. Once set up, it would be part of the 'Make in India' programme under which the Government wants companies to not only manufacture for India but export as well.

Government agencies have projected that around 500 airports in all, both brownfield and greenfield, would be required by 2020.

Some of the major initiatives taken by the Government are :

- The Directorate General of Civil Aviation (DGCA) has given its approval to Air India's Maintenance, Repair and Overhaul (MRO) unit.
- The Ministry of Civil Aviation plans to list Airports Authority of India and Pawan Hans Limited on the stock exchanges.
- The Government has approved the construction of five budget airports to improve regional connectivity and work on them will start during Financial Year 2015-16.

With the right policies and a relentless focus on quality, cost and passenger interest, India would be well placed to achieve its vision of becoming the third largest aviation market by 2020 and the largest by 2030.

**Performance of the Company**

During the financial year 2014-15 the Company had incurred a net loss of Rs.58,599.1 million as compared to net loss of Rs.62,796.0 million in the year 2013-14, representing a decrease of 6.7%. Passenger Revenue increased from Rs.141,507.3 Million in 2013-14 to Rs.157,933.6 Million in 2014-15, a growth of 11.6%. Cargo Revenue increased to Rs.11,550.3 Million in 2014-15 from Rs.10,659.1 Million in 2013-14 registering a growth of 24.68%. Total Revenue increased from Rs.194,807.4 Million in 2013-14 to Rs.206,131.4 Million in 2014-15, a growth of 5.80%. Passenger Load Factor increased to 73.7% in 2014-15 as against 73.3% during previous year, representing renewed passenger confidence in Air India. Number of passengers carried during 2014-15 was 16.8 Million as against 15.4 Million during 2013-14.



**CORPORATE SOCIAL RESPONSIBILITY (CSR)**

Your Company has also taken up several projects for CSR involving Environment, Education and Sports. The Department of Quality Management System has been entrusted with the task of handling the CSR activities carried out by the Company.

**ACKNOWLEDGEMENT**

I take this opportunity to thank the Ministry of Civil Aviation and Finance Ministry for their unstinted support. I also acknowledge the support extended by all other authorities including banks and regulatory agencies and assure that we will continue our course on a growth trajectory, taking Air India to greater heights. I would like to thank my colleagues on the Board for their valuable guidance.

I would like to thank all employees of Air India Limited for exemplary efforts to show the world the strength and resilience of our team spirit in pursuit of excellence. I want to thank each one of our employees for his contribution, whether it's our call centre executives, the frontliners at the airports, the cabin crew, the pilots, the engineers, our IT team or Ground Support colleagues and everybody in the Air India family had risen to the occasion to uphold the image of Air India.

On behalf of the Board, I seek continued support, as always.

**Ashwani Lohani**