

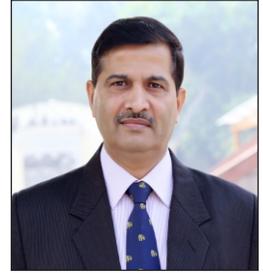


CHAIRMAN'S MESSAGE

Dear Shareholders,

It gives me great pleasure to present to you the 9th Annual Report of the Company for the year 2015-16.

At the outset, I am happy to inform you that post merger in 2007, for the first time, Air India has posted an operating profit of Rs.1050 Million for 2015-16. We have shown tremendous improvements in terms of increased Passenger Load Factor, increased revenues, reduction in losses, robustness in operations and resilience from the position since merger. Our new non-stop flight from Delhi to San Francisco has been a tremendous success.



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 2015-16 :

CIVIL AVIATION SCENARIO

World

During 2015, a major milestone was achieved. At the industry level, airlines generated a return on invested capital exceeding the cost of that capital. For the first time in history, airlines made a normal level of profitability – USD 35.3 Billion net profit on revenues of USD 718 Billion. The spread of profitability, however, was far from even. Geographically, about two-thirds of the industry's profits were generated by airlines based in North America. While passenger traffic was enjoying robust growth, the cargo business continues in the doldrums.

The fall in the oil price is a major driver of improved profitability. The sharp decline in jet fuel prices that occurred in late 2014 continued in 2015, such that the average price of a barrel of jet fuel in 2015 was 42% lower than in 2014. Jet fuel prices fell further in the final months of 2015 and ended the year at around USD 48 a barrel – the lowest in more than 11 years. The decline in jet fuel prices, however, were not felt evenly across airlines and regions, globally, partly due to different hedging practices within the Industry which can delay the benefits of lower oil prices translating into lower unit costs. But sharp drops in the value of many currencies against the US Dollar were another complicating factor in 2015 as the exchange rate declined offset the benefits of cheaper US Dollar based oil prices for many airlines. Adjusting for distortions caused by the strong rise in the US Dollar, global airfares fell around 4.5% on average in constant exchange rate terms during 2015 compared with a year earlier. This was largely because competition intensified in markets that did see decreases in local currency fuel costs. IATA estimates that the resulting surge in demand accounted for around half of the annual growth in passenger traffic seen in 2015.

The two branches of the commercial air transport industry – passenger and freight – had contrasting fortunes in 2015. Industry-wide Revenue Passenger Kilometers (RPK) grew 7.4%. This was the greatest increase since the rebound from the depth of the global financial crisis in 2010 and well above the long-run average of 5.5%. Altogether, more than 3.5 Billion passenger segments were flown in 2015, an increase of 240 Million compared with 2014. International passenger traffic rose 6.5% in 2015 compared to 2014. Capacity rose 5.9% and load factor rose 0.5 percentage points to 79.7%. India's domestic air travel soared 22.9% in January 2015 which is being propelled by the comparatively strong domestic economy and increases in air services. The Indian market overtook both Australia and Japan during 2015 and is currently level with Russia at around 1.2% of global RPKs.

2015 proved weaker for air freight and industry-wise Freight Ton Kilometers (FTK) increased just 2.3% year-on-year in 2015.

IATA's 20 year forecast states that air passenger numbers will double to seven billion annually by 2034.



Indian Civil Aviation Scenario

India's civil aviation industry is on a high-growth trajectory. India aims to become the third-largest aviation market by 2020 and the largest by 2030. The Civil Aviation industry has ushered in a new era of expansion driven by factors such as Low Cost Carriers (LCCs), modern airports, Foreign Direct Investment (FDI) in domestic airlines, advanced information technology interventions and growing emphasis on regional connectivity. India is the ninth largest civil aviation market in the world with a market size of around USD 16 Billion.

Passenger traffic during January-December 2015 increased at a rate of 20.3% to 81.1 million from 67.4 Million in the corresponding period a year ago. Indian domestic air traffic is expected to cross 100 Million passengers by Financial Year 2017, compared to 81 Million in 2015 as per CAPA. India is among the five fastest growing aviation markets globally with 275 Million new passengers.

Government agencies project that around 500 Brownfield and Greenfield airports would be required by 2020. The private sector is being encouraged to become actively involved in the construction of airports through different Public Private Partnership models with substantial state support in terms of financing, concessional land allotment, tax holidays and other incentives. Some major initiatives undertaken by the Government are :

- Airports Authority of India (AAI) plans to develop city-side infrastructure at 13 regional airports across India for building of hotels, carparks and other facilities to boost its non-aeronautical revenues.
- DGCA has signed an agreement with United States Technical Development Agency (USTDA) for India Aviation Safety Technical Assistance Phase II aimed at bringing in systemic improvements in the area of operation, airworthiness and licensing.
- The Government has given site clearance for setting up of a Greenfield Airport near Bhiwadi in Alwar district of Rajasthan and has granted in-principle approval to 13 other Greenfield airport projects.
- AAI plans to revive and operationalise around 50 airports in India over the next 10 years to improve regional and remote air connectivity.

It is expected that by 2020, airlines will operate 1000 aircraft up from the present 450. Domestic and international passenger traffic is expected to grow at annual average rate of 12% and 8%, respectively, in next five years and annual average rate of growth of domestic and international cargo is estimated to be 12% and 10%, respectively, during next five years. MRO industry is expected to triple in size from INR 22,500.0 Million in 2010 to INR 70,000.0 Million by 2020.

The Government is planning to develop a sustainable air network in over 400 tier-2 cities across India with an estimated expenditure of INR 500.0 Million (USD 7.4 Million).

Performance of the Company

Stand-alone

I am glad to inform that post merger in 2007, for the first time, Air India has posted an operating profit of Rs.1050 Million during 2015-16.

Further, during the Financial Year 2015-16 the Company had incurred a net loss of Rs.38,367.8 Million as compared to net loss of Rs.58,599.1 Million in the year 2014-15, representing a decrease of 34.52%. This was mainly due to decrease in fuel and oil cost by Rs.26,037.4 Million due to reduction in fuel prices by 34%, decrease in material and outside repairs by Rs.1,546.8 Million and staff cost by Rs.1,211.3 Million. Passenger Load Factor increased to 75.6% in 2015-16 as against 73.7% during previous year, representing renewed passenger confidence in Air India. Number of passengers carried during 2015-16 increased to 18.4 Million as



against 17.2 Million during 2014-15. New flights were introduced to several destinations, significant amongst them was the non-stop flight to San Francisco from Delhi.

Nevertheless, Passenger Revenue decreased from Rs.1,57,933.6 Million in 2014-15 to Rs.1,56,562.5 Million in 2015-16 due to fall in yield by 7.70%. Cargo Revenue decreased to Rs.10,545.4 Million in 2015-16 from Rs.11,550.3 Million in 2014-15. Total Revenue decreased from Rs.2,06,131.6 Million in 2014-15 to Rs.2,05,261.1 Million in 2015-16. This was despite a better utilisation of manpower and equipment and was caused due to a significant fall in yields.

Consolidated Results

Group had shown Consolidated Net Loss for 2015-16 at Rs.43,100 Million which was less by Rs.19,700 Million compared to the previous year's loss of Rs.62,804.3 Million. EBIDTA had increased from Rs.2,269 Million during 2014-15 to Rs.25,998.6 Million during 2015-16 and EBIDTAR from Rs.14,198.1 Million to Rs.38,915 Million during 2015-16. Passenger Revenue on a consolidated basis increased from Rs.185,202.9 Million to Rs.187,036.1 Million during 2015-16. Other Revenue increased from Rs.15,085.3 Million during 2014-15 to Rs.20,726.1 Million during 2015-16.

There was a reduction in Total Expenses by 5.25% from Rs.295,099.7 Million during 2014-15 to Rs.279,600.8 Million during 2015-16 mainly on account of reduction in fuel and oil expenditure by Rs.29,003.1 Million and Material and Outside Repair Cost by Rs.3,785.4 Million.

However, there was an increase in Staff Cost by 19.47% from Rs.34,836.6 Million in 2014-15 to Rs.41,618.6 Million during 2015-16. The main reason for the increase is the implementation of Justice Dharmadhikari Committee Report and restoration of full pay.

Finance Cost had increased from Rs.42,827 Million during 2014-15 to Rs.47,179.4 Million during 2015-16 i.e. an increase of 10.16% mainly on account of increase in borrowings, payment of guarantee fee to Gol and bridge loan for aircraft financing.

The Group achieved Operating Profit of Rs.604.9 Million as against the Operating Loss of Rs.25,355.1 Million during previous year.

CORPORATE SOCIAL RESPONSIBILITY (CSR)

Although Air India was not required to spend any amount on CSR activities as no profits were earned during preceding year, your Company has 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 who 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