CHAIRMAN’S MESSAGE

Dear Shareholders,

It gives me great pleasure to present to you the 10th Annual Report of the Company for the year 2016-17.

I am glad to inform that for the second consecutive year, Air India has posted an operating profit of Rs.2980.3 million during 2016-17 as against Rs.1050 million during 2015-16. This was possible due to improvements in terms of increased Passenger Load Factor, increased revenues, robustness in operations, etc.

I wish to now present the Civil Aviation scenario globally and within India to give a brief background and thereafter, the results of Air India Limited for the financial year 2016-17:

CIVIL AVIATION SCENARIO

World

Air Transportation provides a significant boost to economic development. Asia dominated the ranks of the fastest growing origin-destination passenger markets in 2016. An ongoing increase in unique city-pair routes has helped to enable the flow of goods, capital, technology and ideas. The number of unique city-pair connections exceeded 18400 in 2016, over 700 more than in 2015 and almost double the connectivity by air 20 years ago. In 2016, Industry-wide Revenue Passenger Kilometers (RPKs) grew by 7.1% and Freight Tonne Kilograms (FTKs) by 3.6%. More than 3.8 billion passenger segments were flown in 2016, an increase of 250 million compared with 2015, and the all time high Passenger Load Factor of 80.4% achieved in 2015, was retained.

The price to users of air transportation, meanwhile, continues to fall, after adjusting for inflation. Compared with 20 years ago, real transportation costs have more than halved. In addition, enhanced service offerings and non-stop connections have expanded choice for consumers. Due to reduced air transportation costs and improved connectivity, the value of international trade was USD 5.5 trillion in 2016 and IATA estimates that air travellers spent around USD 650 billion in 2016.

Passenger demand was also supported by lower fares in 2016. Jet fuel prices climbed to about USD 60 a barrel at the end of 2016 - nearly twice the 12 year low reached in January 2016, yet still much lower than the average between 2011 and 2014, helping keep airfares down. Fuel remains a major cost for airlines, but its share of airlines' costs declined to 19.2% in 2016, the lowest proportion since 2004, helping to lower the industry-wide breakeven load factor for the fourth consecutive year.

It was a year of near-record operating profits in 2016, the operating margin of 8.9% of revenues was up from 8.6% in the previous year and more than three times that achieved in 2012. After allowing for interest charges, taxes and write-downs, the USD 34.8 billion net post-tax profit that airlines generated was slightly down from USD 35.9 billion in 2015.

India

India is the 9th largest aviation market in the world, well on its way to become the third largest aviation market by 2020, and may be the largest by 2030. The aviation industry in India promises huge growth potential due to large and growing middle class population with increasing disposable incomes, fall in price of Aviation Turbine Fuel, increase in tourism, visa reforms etc. The Civil Aviation Industry in India has ushered in a new era of expansion, driven by factors such as Low Cost Carriers (LCCs), modern airports, Foreign Direct Investment in domestic airlines, advanced information technology (IT) inventions and growing emphasis on regional connectivity.
The National Civil Aviation Policy, 2016 has provided a significant fillip to the industry. The centre-piece of the Policy is to make regional air connectivity a reality. The Policy aims to take flying to the masses by making it affordable and convenient, establish an integrated eco-system which will lead to significant growth of the civil aviation sector to promote tourism, employment and balanced regional growth, enhance regional connectivity through fiscal support and infrastructure development and enhance ease of doing business through deregulation, simplified procedures and e-governance. Further, in April 2017, the Government of India has launched regional connectivity scheme UDAN (Ude Desh Ka Aam Nagrik) to make flying affordable for common man.

The GoI envisions airport infrastructure investment of USD 11.4 billion under the Twelfth Five Year Plan (2012-17). It has opened airport sector to private participation, six airports across major cities are being developed under the PPP model. The Airports Authority of India aims to bring around 250 airports under operation across the Country by 2020.

Towards the growth in Civil Aviation in India, the Government has taken various initiatives including construction of 18 Greenfield airports, revival of 50 un-served and under-served airstrips, development of small airports, Viability Gap Funding to airline operators, etc.

PERFORMANCE OF THE COMPANY

Stand-alone

I am glad to inform that for the second consecutive year, Air India has posted an operating profit of Rs.2980.3 million during 2016-17 as against Rs.1050 million during 2015-16 (recasted to Rs.3235.0 million in 2016-17). Further, during the financial year 2016-17 the Company had incurred a net loss of Rs.57,651.7 million as against Rs.38,367.8 million in the year 2015-16, representing a increase of Rs.19283.9 million. This was mainly on account of Exceptional/Extra-Ordinary Provision of Rs.21453.9 million towards JDC Recommendations for Pay Structure rationalization amounting to Rs.12981.6 million and write off of Rs.8472.3 million towards SFIS Scrips Revenue. Number of passengers carried during 2016-17 increased to 19.1 Million as against 18 Million during 2015-16.

Passenger Revenue increased from 156562.5 million in 2015-16 to Rs.159978.1 Million in 2016-17. Cargo Revenue decreased to Rs.10271.9 Million in 2016-17 from Rs.10545.4 Million in 2015-16. Total Revenue increased from Rs.206103.3 Million in 2015-16 to Rs.221776.8 Million in 2016-17.

Consolidated Results

The CFS represented consolidation of parent company's financials with the financials of 5 subsidiary companies viz. AASL, AIXL, AIESL, AIATSL & HCI and one joint venture viz. AISATS. The Group posted an Operating Profit of Rs.2119.8 million as against the previous year Operating Profit of Rs.604.9 million (recasted to Rs. 2983.4 million in the current year).

However, the Consolidated Net Loss of the Group for 2016-17 was Rs. 62885.2 million which was more by Rs.19778.7 million compared to the previous year's loss of Rs.43106.5 million. The increase in net consolidated loss was on account of Exceptional/Extra-Ordinary Provision of Rs.12981.6 million towards JDC Recommendations for Pay Structure rationalization and write off of Rs.8472.3 million towards SFIS Scrips Revenue, done by Air India.

PROPOSED DISINVESTMENT

In view of the NITI Aayog recommendations on the disinvestment of Air India followed by the recommendations of the Core Group of Secretaries on disinvestment, the Cabinet Committee on Economic Affairs (CCEA) has given an in principle approval for considering strategic disinvestment of Air India and five of its subsidiaries in its meeting held on June 28, 2017. CCEA has also approved constitution of an Air India Specific Alternative
Mechanism (AISAM) to guide the process on strategic disinvestment from time to time and decide the following:

1. Treatment of unsustainable debt of Air India;
2. Hiving off of certain assets to a shell company;
3. Demerger and strategic disinvestment of three profit-making subsidiaries;
4. The quantum of disinvestment; and
5. The universe of bidders.

M/s. EY have been appointed as Transaction Advisors, M/s. Cyril Amarchand Mangaldas as Legal Advisors and M/s. RBS& Co. as Asset Valuers for this purpose.

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/her contribution, and for always rising to the occasion to uphold the image of Air India.

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

Sd/-

(Pradeep Singh Kharola)
VISION
To be the leader in Indian aviation and India’s Ambassador to the world.

MISSION
Leadership
Customer
- Provide safe, reliable and on-time services
- Deliver the highest quality of service around the world
- Be the epitome of Indian hospitality

Processes
- Continuously improve standards of safety and efficiency
- Operate and maintain a young and modern fleet
- Provide the best and most efficient network
- Create economic value

People
- To be the employer of choice
- Build a highly motivated and professional team
- Maintain highest degree of transparency and ethics
- Be a responsible corporate citizen

India’s Ambassador
- Be India’s flag carrier in spirit and action
- Provide seamless travel within India and the world
- Connect Indians worldwide

Values
- Zeal to excel and zest for change
- Integrity and fairness in all matters
- Respect for dignity and potential of individuals
- Strict adherence to commitments
- Ensure speed of response
- Foster learning, creativity and team-work
- Loyalty and pride in the Company