



CHAIRMAN'S MESSAGE

Dear Shareholders,

It gives me great pleasure to present to you the 11th Annual Report of the Company for the year 2017-18.

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 2017-18 :



CIVIL AVIATION SCENARIO

WORLD

For the world's airlines, 2017 was a good year. More people than ever travelled - some 4.1 billion. The air cargo business posted growth of 9.7%, the strongest since 2010. The network expanded to exceed 20,000 unique city pairs.

Supported by strong demand and a healthy economic backdrop, Airlines made a net profit of USD 38 billion in 2017. This was the third consecutive year of robust financial outcome in the broader historical context of the industry. For a third year in a row, the return on invested capital (9%) exceeded the cost of capital. With that trend continuing into 2018, it appears that the industry is finally able to deliver normal levels of profitability consistently. Meanwhile, fuel and other input prices are climbing higher.

The industry is also performing well on its top priority - safety. In 2017 there were no fatalities on passenger flights operated by jet aircraft. And the fatal accident rate was the equivalent of one for every 6.7 million flights. In 2017, airlines connected a record number of cities world-wide, providing regular services to more than 20,000 city pairs. This is an increase of 1,351 over the number of city-pair connections in 2016. Over this same period, the cost of air travel for consumers has decreased by more than half in real (inflation-adjusted) terms. The demand for air passenger services grew strongly in 2017 with industry-wide Revenue Passenger Kilometers (RPKs) increasing 8.1%. This is the fastest growth in more than a decade since 2005 and is well above the long run average of 5.5%.

After picking up in the second half of 2016, industry-wide Freight Tonne Kilometers (FTKs) rose 9.7% in 2017, up from 3.6% in 2016. Air freight grew more than twice as fast as global trade volumes overall during 2017 - the widest margin of out performance since the rebound from the global financial crisis in 2010. The strong growth in air freight volumes was driven by the global inventory restocking cycle and by buoyant demand for manufactured exports. In annual terms, international FTK growth accelerated in all regions in 2017 compared with 2016.

INDIA

The civil aviation industry in India has emerged as one of the fastest growing industries in the country during the last three years. India is currently considered the third largest domestic civil aviation market in the world and is expected to become the world's largest domestic civil aviation market in the next 10 to 15 years. According to IATA, India will displace the UK for the third place in 2025. The civil aviation industry has ushered in a new era of expansion, driven by factors such as low-cost carriers, modern airports, foreign direct investment in domestic airlines, advanced information technology interventions and growing emphasis on regional connectivity.

Air traffic in India rose 15.80% year-on-year to 280.24 million during April-February 2017-18. Witnessing a growth of 18.50% over the previous year, total passenger traffic stood at a 264.97 million in FY17, which was recorded at 223.62 Million in FY16. As of March 2018, there are nearly 550 commercial aircraft in operation in India.



According to data released by the Department of Industrial Policy and Promotion, AAI is going to invest Rs.15,000 crore in 2018-19 for expanding existing terminals and constructing 15 new ones. AAI will undertake new development work with the objective to improve and develop airport infrastructure to meet growing traffic demands.

Government of India has also undertaken various initiatives to boost the growth of civil aviation industry, which inter alia include :

- Construction of Navi Mumbai airport launched and first phase expected to be completed by end 2019.
- Under the second round of Regional Connectivity Scheme (RCS 2), 325 routes awarded to airlines as well as helicopter operators with the objective of enhancing flight services to hilly and remote areas. The airline operators have to offer half of their seats at discounted rates and helicopter operators can offer upto 13 seats at lower fares with the government providing Viability Gap Funding or subsidy.
- Construction of 17 highways-cum-airstrips in such a fashion that the roads will double up as air strips and traffic will be stopped when an airplane lands or takes off. This will also provide better access to remote areas.
- Airport building and modernization projects recommended green clearance in line with the Government of India's focus on improvement in regional air connectivity.

Total freight traffic registered a Compound Annual Growth Rate (CAGR) of 7.08% over FY06-17. Freight traffic on airports in India is expected to cross 11.4 million tonnes by 2032. The anticipated double digit growth would make India as the world's 3rd largest aviation market by 2020.

Presently, India has 5 PPP airports which together handle over 55% of country's air traffic. 15 greenfield PPP projects have been approved which are expected to increase air traffic in India.

PERFORMANCE OF THE COMPANY

STAND-ALONE

During the financial year 2017-18 the Company had incurred a net loss of Rs.53,481.7 million as against Rs.64,529.0 million in the year 2016-17, representing a reduction of Rs.11047.3 million. Number of passengers carried during 2017-18 increased to 20.7 Million as against 19.1 Million during 2016-17.

Passenger Revenue increased from Rs.16,02012 million in 2016-17 to Rs.17,7740.9 Million in 2017-18. Total Revenue increased from Rs.221971.1 Million in 2016-17 to Rs.239005.0 Million in 2017-18.

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 Consolidated Net Loss of the Group for 2017-18 was Rs. 57610.2 million which was less by Rs.12731.6 million compared to the previous year's loss of Rs.70341.8 million.

CHALLENGES

Air India suffered a net loss of Rs 53,481.7 million in the year 2017-18. This was primarily due to a huge outstanding debt on which interest charge of Rs41,556.8 million were incurred. Our increasing operating costs are also a cause of concern. Our well trained human resources as well as the continued patronage from public



was our greatest strength. One of our subsidiaries, Air India Express Ltd, performed extremely well and has been rated as one of the most economical airlines in the world. Air India's direct long distance connections to USA as well as Australia, remained our prime products. In spite of these, the huge loss indicated that Air India needs to take immediate steps for improving its revenue as well as bringing internal efficiencies. The high cost of aviation fuel and an unfavourable exchange rate would pose serious threat to the financial performance of Air India.

PROPOSED DISINVESTMENT

In view of the decision of the Government of India for strategic disinvestment of Air India and five of its subsidiaries, Air India Specific Alternate Mechanism (AISAM) headed by Minister of Finance & Corporate Affairs and including Minister of Road Transport, Highways & Shipping, Minister of Commerce, Minister of Civil Aviation and Minister of Railways to guide the process on strategic divestment from time to time was constituted.

Various decisions were made by the AISAM. In its Meeting held on 21st March, 2018, AISAM had decided on the disinvestment of Air India with transfer of management control and sale of 76% equity share capital held by GoI, which would include Air India's shareholding interest in Air India Express Limited and 50% of AISATS. Accordingly, Expression of Interest was invited from interested bidders. However, as no response was received from prospective bidders, Government decided to undertake near and medium term efforts to capture operational efficiencies and to improve the performance of Air India, to monetize non-core land and building assets and to separately decide the contours of the mode of disposal of the subsidiaries viz. Air India Engineering Services Limited, Air India Air Transport Services Limited and Airline Allied Services Limited.

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 their 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