



Chairman's Message

Dear Shareholders,

It gives me great pleasure to present to you the 7th Annual Report of the Company for the year 2013-14.

At the outset, I would like to congratulate you on the achievement of your Company for joining Star Alliance, the largest alliance in the world with effect from 11 July 2014 after fulfilling 64 joining requirements of which technology integration and safety were the most critical ones. During the Safety Audit conducted by an Independent Audit Company from USA chosen by United Airlines, the Auditors had praised Air India on all the safety parameters.



By joining Star Alliance the passengers would have great advantage as they would be able to accrue and burn miles on any airline in the alliance, get access to more than thousand lounges, book and check-in through to final destination, priority boarding etc. Air India could now have the code shares in place, increase in passenger revenue of around 3% - 4%, get advantages of economies of scale like bulk discount on procurement, etc.

Given the competitive environment in which we operate and the mounting challenges faced on a daily basis, promoting good governance, robust internal control system combined with a dynamic ERP platform are the key to our progress and maintaining the highest levels of ethical standards is fundamental to our long term growth. Our priority will continue to be in the area of enhancing organizational capabilities to deliver enhanced performance.

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 2013-14 :

CIVIL AVIATION SCENARIO

World

On 1 January 2014, Aviation Industry marked the first 100 years of Scheduled Commercial Aviation. In the century since, aviation has grown and made amazing progress. Today, aviation is not only the lifeblood of the global economy but also a very competitive and difficult business.

In 2013, the airline industry made a collective profit of \$ 12.9 Billion (post-tax profit of \$ 10.6 Billion) on revenues of \$ 708 Billion. A net profit margin of 1.8% (post-tax 1.5%), i.e. airlines made a profit on average of just \$ 4.13 for every passenger carried. This was the fourth successive year of profitability.

In 2013, the main challenges were high oil prices and a weak global economy. The cargo side of the business was particularly challenging. Cargo volumes have not grown since their post recession spike in 2010. The passenger business has been more robust with demand growing in the historical 5% to 6% range. Passenger Load Factor (PLF) reached a record high at 80%. Cargo Load Factors remained rooted below the 50% mark. Enlarged belly-hold capacity in new passenger aircraft has exacerbated the situation, with capacity growing irrespective of cargo demand. Although, PLF reached record high, the break-even load factors dipped to 64.2% in 2013 from 64.8% the previous year, for the first time since 2009.

Jet fuel averaged at \$ 124.5 a barrel during the year. In 2012, the jet fuel averaged just under \$ 130 a barrel. Fuel continued to be the major cost for airlines, accounting for 31% of the total costs.

As per the IATA projections, it is expected that fuel prices will remain high in 2014. However, the recent decline in crude prices to below \$ 50 per barrel is a good harbinger for the aviation industry in general and India in particular since ATF is priced significantly high in India as compared to other countries. It is expected that the airlines will transport approximately 3.3 Billion passengers and 50 Million Metric Tons of cargo across a network of almost 50,000 routes.

Governments and Aviation Industry are committed to achieve carbon-neutral growth from 2020 through advances in technology, operations and infrastructure.

Indian Civil Aviation Scenario:

India's air passenger traffic rose six per cent in the financial year 2013-14 as compared to a decline in the previous year. The increase in air passenger traffic was in spite of a weak demand environment. The demand environment has



been a challenge for quite some time now owing to overall slowdown of the domestic economy. However, factors such as enhanced air connectivity of non-metro cities, expansion/upgradation of existing airport infrastructure, higher seat availability and discounted air-fares are estimated to have supported the growth in passenger traffic.

During the year 2013-14, all the five categories of airports reported a y-o-y rise in passenger traffic. Of the total 169 million passengers handled by Indian airlines, 72.4 per cent was contributed by domestic airlines. The domestic passenger traffic grew by 5.2 per cent to 122.4 Million passengers during the year.

After declining for two years in a row, the air freight traffic in India returned to growth in 2013-14. Air freight volumes rose by four per cent in 2013-14 and by 8.1 per cent for the month of March. International cargo traffic accounted for 63.3 per cent of the total cargo traffic in 2013-14. It rose by 2.6 per cent to 1,443 thousand tonnes. Domestic cargo traffic rose by a higher 6.6 per cent to 836.1 thousand tonnes during the year.

Domestic airlines carried 67.38 Million passengers during January-December 2014 as against 61.43 Million during the corresponding period of 2013, registering a growth of 9.7 per cent.

India, a growing Asian economy, is amongst the fastest growing and currently the 9th largest aviation market handling 121 Million domestic and 41 Million international passengers, is expected to become the third largest aviation market by 2020 with the Country's airports handling 336 Million domestic and 85 Million international passengers with projected investment to the tune of US\$ 120 Billion by 2020.

As India is among the countries witnessing highest growth in air passenger traffic, its airport infrastructure is undergoing modernisation with the installation of state-of-the-art facilities. New Greenfield airports are under construction and security, surveillance and air traffic navigation systems have been modernized. Today, more than 85 international airlines operate to India and 5 Indian carriers connect over 40 countries.

To give impetus to the growth and expansion of airlines in India, a number of steps have been taken by the Government such as

- direct import of ATF by Indian carriers,
- permitting airlines to acquire aircraft as per their business plan without obtaining permission from the Ministry of Civil Aviation,
- privatization of four major airports under JV/PPP model and the policy of development of Greenfield airports which envisages synergy between the public and private sector. Keeping pace with the Government policy, the Airports Authority of India has also completed the expansion and upgradation of two metro airports at Kolkata and Chennai and has undertaken the development of 35 selected non-metro airports,
- the Government is in the process of introducing a bill in Parliament which will enable replacing the existing DGCA with a more autonomous Civil Aviation Authority (CAA). The CAA will be a self-funding entity and shall have financial and operational autonomy.

Performance of the Company

During the financial year 2013-14 the Company had incurred a net loss of Rs.62,796.0 Million (on a standalone basis Airline Business incurred a loss of Rs.59,359.3 Million) as compared to net loss of Rs.54,901.6 Million in the year 2012-13, representing an increase of 14.37%. Passenger Revenue increased from Rs.1,24,944.4 Million in 2012-13 to Rs.1,41,507.3 Million in 2013-14 a growth of 13.26%. Cargo Revenue increased to Rs.10,659.1 Million in 2013-14 from Rs.8,549.0 Million in 2012-13 registering a growth of 24.68%. Total Revenue increased from Rs.1,60,721.1 Million in 2012-13 to Rs.1,90,934.9 Million in 2013-14 a growth of 18.80%. Passenger Load Factor increased to 73.3% in 2013-14 as against 72.4% during previous year, representing renewed passenger confidence in Air India. Number of passengers carried during 2013-14 was 15.43 Million as against 14.10 Million during 2012-13.

I am pleased to report that our concerted effort to win back passengers has resulted in our market share heading northwards. In spite of stiff competition, we have shown a lot of character and resilience to fight our way back on track. It is indeed heartening to note that we have been able to meet most benchmarks laid down in the Government approved Turnaround Plan. Various financial and operational restructuring, coupled with increased passenger confidence should propel us to a brighter horizon. The year 2014 has been marked with some heartening accomplishments, such as our entry into Star Alliance, the introduction of new flights to Rome, Milan and Moscow on the international routes and to key



domestic destinations like Bhuj, Gwalior, Pantnagar and some other tourist destinations such as Agra and Allahabad. Besides, the introduction of the Dreamliner aircraft on domestic network, increased connectivity and enhanced capacity. We also introduced flight track module, ticket booking on mobile phones, various promotional schemes and offers, code sharing arrangements with other airlines which also bolstered our strength. We have also taken part in relief operations for stranded Indians due to unrest or natural calamity in India and abroad.

Just six months into the Alliance, Air India has already seen positive effects from the membership. There has been a 33% increase in the number of passengers transferring between Air India and other Star Alliance member airlines. A key benefit has been the frequent flyer programme. Over 80,000 frequent flyers have earned miles while flying Air India since July and more than 20,000 Air India Frequent Flyer Members have miles credited for flights on other Star Alliance member carriers.

At the time of signing this Report, I am pleased to report that we registered a small profit of Rs.146 Million in December 2014, the first after several months. The Passenger Revenues have been buoyant in the year 2014-15, registering a 10% increase and with the ATF prices dipping by 25%, a new sense of optimism has overtaken us. Air India will redouble its efforts in reaching its targets well before the time line set if the crude prices remain below \$ 50 per barrel in 2015-16.

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 thank all the employees of Air India Limited for their sustained and indefatigable efforts in meeting the challenges posed before the Company and on behalf of the Board, I seek continued support, as always.

Rohit Nandan



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