INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF AIR INDIA LIMITED

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of AIR INDIA LIMITED, ("The Company"), which comprising of the Balance Sheet as at 31st March 2014, the Statement of Profit and Loss and the Cash Flow Statement for the year then ended, and a summary of Significant Accounting Policies, Notes and other explanatory information.

MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

Management is responsible for the preparation of these financial statements that give a true and fair view of the financial position, financial performance and cash flows of the company in accordance with the Accounting Standards (AS) referred to in sub-section (3C) of Section 211 of the Companies Act, 1956 ("the Act"), read-with general circular no.15/2013 dated 13/09/2013 of the Ministry of Corporate Affairs in respect of Section 133 of the Companies Act,2013.This responsibility includes the design, implementation and maintenance of internal controls relevant to the preparation and fair presentation of the financial statements that are free from any material misstatement, whether due to fraud or error.

AUDITORS' RESPONSIBILITY

Our responsibility is to express an opinion on these financial statements based on our audit. We have conducted our audit in accordance with the Standards on Auditing issued by the Institute of Chartered Accountants of India. These standards require that we comply with the ethical requirements and plan and perform the audit to obtain a reasonable assurance whether the financial statements are free from any material misstatements.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of the accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified audit opinion.

BASIS FOR QUALIFIED OPINION

1. *We invite attention to Note No. 1(c)(4) read with Note No.62 regarding balances of inventory migrated to RAMCO system (Ramco) and report as under :*

   a. *As stated in Note No. 1(c)(4)(ii) read with Note No.62, repairable, are expensed only at the time of scrappage. As such the repairable are not charged to consumption at the time of its issue. The accounting policy of not charging of the repairable items at the time of its initial issue, in our opinion is not in accordance with the provisions of "AS-2 on Inventories" read with AS-10 on Fixed Assets. Further during migration, wherever the weighted average rates of inventory items were not available, these were valued at the latest available weighted average rate/catalogue price. The valuation of inventories at latest weighted average/catalogue price is also not in accordance with the provisions of AS-2 as these should have been valued at its original weighted average cost or net realizable value, whichever is lower. The precise financial impact of the same on accounts is not ascertained.*

   b. *Provision has not been made in accounts for :*

      i. *Differential provision required (to the extent ascertained) Rs. 316.1 million towards valuations/ quantities remaining to be corrected. (refer Note No. 62(iii));*

ii. Inventory items valued at Rs.1181.1 million further migrated to Ramco during the year as "unplanned receipts" stated to be on the basis of physical availability for which adequate records to substantiate the physical availability and the cost thereof are not in possession of the management (refer Note No. 62(v));

iii. Differential values Rs.19.7 million of aircraft rotables included in inventories remaining to be corrected (refer Note No. 62 (vi));

iv. Materials issued to in-house repair jobs valued at Rs.3532.4 million where the work-orders have been closed/completed/pre-closed/cancelled but are lying unadjusted in Ramco and Expendables valued at Rs. 381.0 million included therein (refer Note No. 62(viii));

v. Inventory balances aggregating to Rs. 1485.1 million lying under various intermediary accounts for which consumption/issues have not been updated (refer Note No. 62(ix));

vi. Consumption of Rs.970.1 million accounted in Ramco but reversed in the books of account (SAP) for which necessary records are not available (refer Note No. 62(x)).

c. The precise financial impact of free of cost, cannibalized items and items of inventory received along with aircrafts, taken in inventory and valued at latest weighted average cost, pending corrections in valuations as well as quantities, pending scrappages, process of accounting followed by the company for accounting of repairables and pending reconciliations of various inventory related accounts as stated in Note No. 62 has remained unascertained and cannot be commented upon.

d. As stated in the note, the data relating to last movement of inventory items is not available in Ramco and supporting details of quantities and details migrated have not been documented. The non-moving items have therefore been identified by the management on the basis of movement data available in legacy system which are as compiled by the management outside the Ramco. The precise impact of the above on carrying value of inventory has remained unascertained.

e. As stated in Note No. 62(ii), there have been inadequate documentation and internal controls in the process of migration of balances into Ramco and migration audit has not been conducted. Process of physical verification of migrated inventory is yet to be completed, and necessary accounting actions towards the differences noted during migration are yet to be adjusted, the provision of Rs.353.9 million in respect of un-reconciled differences in migration has been reversed during the year though the same are yet to be reconciled. In our opinion these differences need to be provided for.

f. As stated in Note No. 62(xv), Confirmations of balances in respect of inventories with third parties are pending. Vendor related accounts are pending reconciliation and Liability towards goods /expanses is being accounted for to the extent of available data in Ramco. Verification, reconciliation and necessary accounting adjustments in relation to non-aircraft inventory balances carried in the books of accounts are also stated to be in progress for which no comments can be offered. The precise impact arising out of the above has remained unascertained.

g. The company is carrying inventory related to phased out fleet CF6 engine parts amounting to Rs.801.3 million which has not been certified to be useable for other aircrafts which as per the accounting policy followed by the company needs to be provided for. (refer Note No. 62(xi))

Therefore in our opinion, as at the year end, balances as stated in inventories amounting to Rs.9,040.7 million is overstated with a consequential impact on loss for the year understated to the extent of Rs. 9,040.7 million. The precise impact of over valuation/ discrepancies in quantities/values is not fully ascertained and therefore cannot be commented upon.

2. *As stated in Note No.79, the company has been carrying the net balance of deferred tax asset amounting to Rs.28,425.2 million which was recognized in years 2007-2008 and 2008-2009. In the subsequent years deferred tax assets have been recognized only to the extent of deferred tax liabilities as a prudent measure. Since the*

virtual certainty as stipulated under Accounting Standard-22, Taxes on Income, had not been established in the year 2009-10,the carrying amount of deferred tax asset should have been charged off in the year 2009-10 itself. Consequent to above, the balance in Prior Period Adjustments in the 'Statement of Profit and Loss' , has been under-stated to the extent of Rs. 28,425.2 million and balance of Deferred Tax Assets under Non-Current Assets, has been overstated to that extent. With the consequential effect, the "Loss after tax for the year" carried forward to the Balance Sheet, is understated to the extent of Rs. 28,425.2 million. Further during the year deferred tax asset has been recognized to the extent of deferred tax liability amounting to Rs.2,889.7 million. Though the management is confident of realizing the deferred tax asset based on the turn-around measures which are at various stages of implementation as stated in the said note No.79, the impact thereof as expected by the management cannot be conclusively established and therefore it has not been possible for us to conclude as to whether there is a virtual certainty as envisaged under the provisions of AS-22. We have therefore not been able to form our opinion in respect of realisability of the deferred tax asset recognized periodically. The overall impact of the above on the loss for the year could not be ascertained.

3. *As stated in Note No. 28, the company is yet to apportion cost of SAP capitalized in its books and maintenance charges to the subsidiary companies where the SAP is being implemented/has been implemented. The accounting treatments arising out of the migration audit are also pending in certain cases. Impact thereof has not been ascertained.*

4. *As stated in Note No. 33(b) the company is in occupation and carrying in its books property at Vasant Vihar as lease hold property valued at Rs. 51295.1 million for which lease deed has not been executed and the regularization of title of the company is pending. No provision has been made for regularization charges/penalties payable, if any, for such occupation as the amount is not ascertained. The carrying value of the asset in the accounts is subject to regularization of the title of the company and since the matter is still pending with the competent authority, effect on the same on the financial statements cannot be commented upon. The impact of unearned increase payable, if any, is also not ascertained.*

5. *As stated in Note No. 33(d) the company has sold 332 flats out of the 508 flats constructed on the land at Nerul, Navi Mumbai. Even though the rights, interest and possession in respect of the flats sold have been created in favour of the concerned members, the property is being carried under Gross Block of Fixed Asset and depreciation is being charged on the composite cost. Tax liability, if any, arising out of this transfer has also not been computed and has not been accounted for. Since the transfer of rights in the flats sold has completed, in our opinion necessary account effect of the sale need to be given in accounts. However in view of the reasons stated in the note, the precise impact of the above has not been determined and therefore cannot be commented upon.*

6. *As stated in Note No.29, 37, 38, 53 to 55, 60 to 67, 70 and 74, regarding confirmations and reconciliation including matching of debits/credits in various balances in subsidiary/ other assets/liabilities /income /expenditure accounts at certain locations and pending reconciliation of TDS /service tax, intermediary/transitory accounts. The accounts of various inventory related vendors and other accounts are also pending reconciliation and are being compiled and reconciled with the legacy/SAP data. The year-end balances of inventory items as well as consumption during the year have been accounted based on reports generated out of Ramco, which are to be reconciled with the accounts. Balances of fixed assets/rotable items migrated to SAP are also being reconciled item-wise. Reconciliation of various revenue related accounts as stated in the note is also pending. We are unable to comment on the impact of adjustments arising out of reconciliation/confirmation of such balances, on the Financial Statements. The impact of the same on the Financial Statements is not ascertainable.*

7. *As stated in Note No. 42, the company is yet to conduct the impairment assessment in accordance with the requirements of AS-28 and the exchange differences amounting to Rs.43,997.1 million have been capitalized pending impairment assessment of the Aircraft fleet. As stated in Note No.44(b), certain aircrafts have been identified for sale/lease subsequent to the Balance sheet date but the assessment of impairment loss has not been conducted. The overall impact due to impairment loss has remained unascertained and therefore cannot be commented upon.*

8. *As stated in Note No. 46, manufacturer and supplier credits entitlements received at the time of delivery of aircrafts amounting to Rs.1,545.4 million has been recognized as Incidental revenue instead of adjusting to the cost of assets as required under the provisions of AS-10 on Fixed Assets. Loss for the year is understated to that extent. The precise impact on depreciation charged during the year has not been computed and is therefore unascertained. The accounting policy stated at Note No. 1(C)(5) is also not in compliance with AS-10.*

9. *As stated in Note No. 43, the balances of unutilized duty credit entitlement scrips under Serve From India Scheme (SFIS) amounting to Rs.6934.2 million are being carried in the financial statements as advances recoverable in cash or kind. Since these scirps have expired and are yet to be validated, the carrying balance in the account (net of utilsation subsequent to the Balance Sheet date) Rs. 6736.4 million needs to be provided for. Further the company has accounted the SFIS claim relating to the year 2007-08 amounting to Rs. 4735.9 million wherein there is no confirmation of the acceptance of the company's claim and scrips are also yet to be issued. In our opinion, the company's claim for these scrips still being under acceptance, the recognition of the same as "Extra ordinary Item" is not in accordance with the provisions of AS-9 on Revenue Recognition.*

10. *As stated in Note No 44(a),loss on account of sale of two B777-200LR aircrafts amounting to Rs.2,779.5 million has not been accounted for, while these aircrafts were retired from active use and held for disposal. These aircrafts are required to be stated as Surplus Asset at Net realizable value and resultant loss needs to be accounted for.*

11. *No provision has been made in the accounts for the following :*

    a. *Differential Guarantee Fee amounting to Rs. 2,524.9 million for which approval of competent authority is yet to be received. (refer Note No. 31);*

    b. *Advance outstanding for purchase of Nerul Land Rs. 24.6 million where execution of lease deed, hand over of possession is pending and the plot is subject to encroachments. (refer Note No. 35);*

    c. *Debit balance in Pax Credit sales (intermediary account) to the extent of Rs. 500.7 million which represents excess revenue or excess liability recognized in accounts. (refer Note No. 60(b));*

    d. *Dues from various tenants of Air India Building to the extent Rs. 370.2 million which are older than 3 years. (refer Note No. 60(e));*

    e. *Penalty and interest (amount unascertained) payable, for delayed payment of service tax, since the accounts are under reconciliation. (refer Note No. 55(e));*

    f. *Interest payable to Airport Authority of India as per letter from MOCA Rs. 1408.3 million. (refer Note No. 66(a));*

    g. *Interest payable to various airport authorities on account of delayed payments which as per the company is disputed and hence the precise amount payable is not quantifiable. (refer Note No. 63 to 67);*

    h. *Impact arising out of the implementation of Justice Dharmadhikari Committee report on the accrual of retirement benefits for the employees where the report has been implemented as the same is not separately computed. The consequential impact on the disclosures made under AS-15 has also remained unascertained. (refer Note No. 77(c)) ;*

12. *As stated in Note No. 82, regarding disclosure requirements under revised Schedule VI, while the exemption from the MCA for such non disclosure has not been received. Further the requirements of revised schedule VI have been complied with to the extent possible and classification of current/non-current assets/liabilities is as arrived at by the management. The impact of pending compliances can therefore not be commented upon.*

13. *We invite attention to the disclosures in following Notes forming part of accounts for which precise financial impact on accounts has remained unascertained:*

    a. *Note No. 33 regarding pending registration formalities and title deeds being obtained in respect of certain properties, Note No.37 regarding various fixed assets data not migrated to SAP and classification of certain* *fixed assets to be aligned and the data pending reconciliation, Note No. 39(b) regarding classification and depreciation on certain assets, the financial impact of these have remained unascertained;*

b. *Note No. 33(d) regarding additional premium payable to CIDCO towards non development of surplus land being capitalized;*

c. *Note No.36, 51 & 54 regarding strengthening of internal audit process and improvements required with regard to physical verification of cash in hand at the year end as well as physical verification of fixed assets and inventories in accordance with the accounting policies and pending reconciliation of cash in hand and Bank accounts;*

d. *Assets retired from active use and held for disposal are also being identified as stated in Note No. 41. Compliance of AS-10 is pending;*

e. *Note No. 47(i) (c) regarding exchange differences arising on short term borrowings treated as long term monetary items, Note No. 47(ii) regarding Exchange Differences arising on settlement or reporting of certain transactions, not disclosed separately; Note No. 47(iii) regarding certain closing balances not stated at FEDAI rates at the year end, and para 47(i) (d) regarding treatment of exchange differences regarded as adjustments to interest cost in relation to periods up-to March 31,2011,which is not in compliance with the requirements of AS-16 on Borrowing cost read with AS-11 on Effects of Changes in Foreign Exchange Rates;*

f. *Note No. 50 & 51 regarding strengthening of internal controls at certain locations/stations and maintenance of adequate records;*

g. *Note No. 52 regarding certain items being accounted for on cash basis;*

h. *Note No.57 & 58 regarding pending accounting adjustments arising out of the fraudulent transactions;*

i. *Note No. 60 (c) regarding pending discrepancies in revenue accounted for and pending reconciliation of data related passengers flown and other revenue accounts;*

j. *Note No. 60(d) regarding dues from erstwhile GSAs;*

k. *Note No. 60(g) regarding revenue share from Air India Charter Limited accounted based on provisional data;*

l. *Note No. 62(xii) & (xiii) regarding pending reconciliation of aircraft inventory and ascertainment of non moving inventory in respect thereof;*

m. *Note No.62(xiv) regarding spares meant for modification of aircrafts (amount unascertained) are continued to have been included as inventory which is not in accordance with AS-2 read with AS-10.*

n. *Note No. 62(xv) regarding accounting of exchange difference during the year-end translation difference at the year-end in respect of inventory related accounts and pending reconciliations as stated therein.*

o. *Note No. 74 and 75 regarding non-cognizance of losses incurred by the subsidiary companies and, consequently not providing for diminution in the value of Investments to be in compliance with AS-13 on "Accounting for Investments" and non provision of Advances outstanding with these subsidiary companies where net-worth has completely eroded and these companies are in continuous losses.The company has also recognized interest on advances to these company. The recovery of these dues is subject to turnaround of these companies and the precise impact of the same has remained unascertained.;*

p. *Note No.77 (a) & (e) regarding ad-hoc provision for wage arrears and pending accounting of dues of employees.*

14. *We further Report that in view of the observations made by us in the paragraphs 1 to 13 above, considering the impact to the extent quantifiable, Loss for the year excluding Prior period adjustments is understated by Rs.29,666.6million and Prior Period Adjustments are understated by Rs.28,425.2 million with cumulative effect on loss after tax for the year carried to Balance sheet being understated by Rs.58,091.8 million, Accumulated losses are understated by Rs.58,091.8 million, inventories are overstated by Rs.9,040.7 million and with consequential impact on loss for the year being not determined precisely, current liabilities are understated by Rs. 4,433.9 million, Fixed Assets are overstated by Rs.12,520.8 million, Other Current Assets understated by Rs. 7,825.7*

million, Loans and Advances are overstated by Rs.11,496.9 million, and balance in Deferred Tax Asset would have been Rs. Nil. The earning per share as computed in Note No. 80 is subject to our observations contained herein.

QUALIFIED OPINION

In our opinion and to the best of our information and according to the explanations given to us, except for the effects of the matter described in the Basis for Qualified Opinion paragraph, the financial statements give the information required by the Act in the manner so required and give a true and fair view, in conformity with the accounting principles generally accepted in India:

(a) *in the case of the Balance Sheet, of the state of affairs of the Company as at 31st March, 2014;*

(b) *in the case of the Statement of Profit and Loss, of the Loss for the year ended on that date; and*

(c) *in the case of Cash Flow Statement, of the cash flows for the year ended on that date.*

EMPHASIS OF MATTER

i. As stated in Note No.77 (c), the company has paid to the employee, 75% of the allowances payable to various categories effective July 2012, pending the implementation of Justice Dharmadikari Committee Report, which is under sub-judice. The unpaid allowances amounting to Rs. 6738.6 million have been shown as contingent liability.

ii. As stated in Note No. 59, during the year certain selected foreign and domestic stations of the company were visited by us. These visits were meant to review the original records maintained at these stations and to examine internal controls at these stations. These visits were conducted as per the schedule finalized by the management. Accounts of the other unaudited stations have been incorporated in the consolidated accounts of the company as per the data submitted by the respective stations.

iii. As stated in Note No. 70, 74 and 75 and in other cases wherever the company has undertaken transactions with subsidiary companies/group companies/Joint ventures, the existence of arm's length relationship in such transactions has not been determined.

iv. Attention is further drawn to the following disclosures in Notes forming part of accounts :

a) Note No. 45(c) regarding fuel burn allowance of Rs. 459.7 million accounted during the year based on accrual while the agreement is yet to be executed.

b) Note No. 48 regarding merger of Vayudoot Ltd. and consequential adjustments carried out in the accounts of the company.

c) As stated in Note No. 53(g), the company is yet to be admitted as a member of Star Alliance and joining fee Rs. 639.4 million being carried under "Loans and Advances".

d) Note No. 55 (d) regarding Delayed Payment charges paid/payable to Oil Marketing Companies amounting to Rs. 2,373.1 million and pending deduction of TDS on the same and interest on delayed payment of TDS/ Service Tax Rs. 514.6 million, have been included under "Finance Cost" as against "Other Expenses".

e) Note No. 73 regarding release sum paid by the company Rs.1269.4 million being a mortised over remaining useful technical life as per accounting policy in this regard.

f) Note No.81regarding dues to MSME which are remaining to be identified and interest payable, if any in respect thereof.

g) Note No.86 regarding the financial statements of the Company having been prepared on a going concern basis, notwithstanding the fact that its net worth is completely eroded. The appropriateness of the said basis is interalia dependent on company's ability to obtain equity from the Government for meeting its obligations, improved operational/financial performance and the successful implementation of Turn Around Plan approved by the Govt.

Our opinion is not qualified in respect of these matters.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

1. As required by the Companies (Auditor's Report) Order, 2003, issued by the Central Government of India in terms of sub-section (4A) of section 227 of the Act, we give in the annexure a statement on the matters specified in Paragraphs 4 and 5 of the Order.

2. As required by Section 227(3) of the Act, we report that:

   i) We have obtained all the information and explanations, which to the best of our knowledge and belief were necessary for the purposes of our audit *except for the matter described in the basis for qualified opinion paragraph;*

   ii) In our opinion, proper Books of Account as required by law have been kept by the Company, so far as appears from our examination of those books of accounts maintained at the Central Accounts Office/Registered Office / stations of the Company, incorporating the information/returns received from the business areas/ stations/locations including those not audited by us.

   iii) The Balance Sheet, the Statement of Profit and Loss and the Cash Flow Statement dealt with by this Report are in agreement with the Books of Accounts and with the returns received from stations/locations not visited by us;

   iv) *Except for the effects of the matters described in the Basis for Qualified Opinion paragraph, in our opinion, the Balance Sheet, the Statement of Profit and Loss and the Cash Flow Statement comply with the Accounting Standards referred to in sub-section (3C) of Section 211 of the Act, read-with General Circular no.15/2013 dated 13/09/2013 of the Ministry of Corporate Affairs in respect of Section 133 of the Companies Act, 2013;*

   v) The Company, being a Government Company as defined in Section 617 of the Act, is exempted from the applicability of the provisions of the Section 274 (1) (g) of the said Act vide Circular No. 2/5/2001/ CV.V General Circular No. 8/2002 dated March 22, 2002 issued by Ministry of Law, Justice and Company Affairs;

   vi) Since the Central government has not issued any notification as to the rate at which the Cess is to be paid under Section 441(A) of the Act nor has it issued any rules under the said Section, prescribing the manner in which such Cess is to be paid, no Cess is due and payable by the Company.

For and on behalf of
R. Devendra Kumar & Associates
Chartered Accountants
FRN 114207 W

Sd/-
(D.K. Gupta)
Partner
M.No.009032

For and on behalf of
Kapoor Tandon & Co
Chartered Accountants
FRN 000952C

Sd/-
(Rajesh Parasramka)
Partner
M.No.074192

For and on behalf of
PKKG Balasubramaniam & Associates
Chartered Accountants
FRN 001547S

Sd/-
(C.Suresh)
Partner
M.No.204602

Place : New Delhi
Date : 11 December 2014

ANNEXURE TO INDEPENDENT AUDITORS' REPORT

Referred to in paragraph (1) under Report on Other Legal and Regulatory Requirements of our Audit Report of even date

1. (a) *The records relating to fixed assets including rotables maintained by the company are stated to be in the process of updation with reference to full particulars, quantitative details and location thereof. The Company has not yet updated fair value of assets in the Fixed Assets Register at certain locations and it is informed that the same is in process. The reconciliation of Fixed Asset Register for aircraft rotables and other fixed assets with financial records is stated to be in progress.*

   (b) *The Company has a policy of physical verification of Fixed Assets on a rotational basis so that every asset is verified once in every two years. It is observed that during the year, the physical verification has been conducted only at few locations. The physical verification process is stated to be under streamlining and as such every asset is not physically verified as required under the laid down procedure. The discrepancies noticed during the biennial period 2010-12 and 2012-14 are under accounting action. In the absence of compliance of the accounting policy and a complete reconciliation of the results of physical verification with financial records, we are unable to ascertain whether the physical verification has been conducted and to the extent conducted revealed any material discrepancy. (refer Note No.36)*

   (c) In our opinion and according to the information and explanations given to us, the Company has not disposed off substantial part of Fixed Assets during the year affecting the going concern assumption.

2. (a) *The Company has a procedure of conducting physical verification of Inventory at-least once in a block of two years, on a perpetual basis. However in practice the same has not been followed and only a portion of inventory is being physically verified.*

   (b) *The procedure of physical verification of inventories on a perpetual basis by the Management needs to be in line with the accounting policy declared by the company. The physical verification conducted during the year is minimal and needs to be considerably enlarged. Considering the size of the Company and nature of its business the process of physical verification of inventories needs to be strengthened with regard to the coverage and frequency. The Company has not obtained confirmations / certificates in respect of Inventory lying with outside agencies.*

   (c) *On the basis of our examination of the Inventory records, in our opinion, the Company is to update and correct the records of air-craft related Inventory in New system in terms of values migrated and source of quantities items and in case of non aircraft stores, these are to be reconciled with the financial records. The centralized records relating to inventory and consumption maintained at stores need to be fully reconciled with the financial records. (Refer Note No. 62)*

   The discrepancies noticed on physical verification of Inventory, as compared to book records are in the process of reconciliation and adjustment subjecting to scrutiny by the concerned Department and thereafter the same are properly dealt with in the Books of Accounts.

3. (a) The Company has not granted any Loans, Secured or Unsecured to Companies, Firms or other parties covered in the Register maintained under Section 301 of the Companies Act, 1956 (the Act) except interest bearing advances to subsidiary companies which is in the nature of running account and where no terms of repayments have been specified.

   (b) Consequently, the question of commenting on the rates of interest and the other terms and conditions of the loans granted being prejudicial to the interests of the Company, receipt of regular principal and interest and reasonable steps taken for recovery of principal and interest does not arise except in the case of subsidiary companies, where the company has charged interest on advances with subsidiaries at the rate which is prima facie not prejudicial to the interests of the company, however since there are no repayment terms are specified the schedule of repayment can not be commented upon. Further since the running account is maintained no comments can be offered towards recovery of principal or interest thereon.

(c) The Company has not taken any loans, secured or unsecured from companies, firms or other parties covered in the Register maintained under Section 301 of the Act.

(d) Consequently, the question of commenting on the rates of interest and the other terms and conditions of the loans taken being prejudicial to the interests of the Company and payment of regular principal and interest does not arise.

4. *In our opinion and according to the information and explanations given to us, the internal control system need to be followed as prescribed and be strengthened to be commensurate with the size of the Company and the nature of its business, for the purchases of Inventory, fixed assets and sale of goods and services. The Company is in the process of reconciling sub-ledgers with the general ledger in respect of Inventory, revenue accounts, sundry debtors/creditors, staff advances and certain intermediary accounts, etc. (refer Note No. 29). The management needs to take corrective action on continuing failure to improve the weakness in internal control system.*

5. (a) Based on the audit procedures applied by us and according to the information and explanations provided by the management, we are of the opinion that there are no particulars of contracts and arrangements referred to in Section 301 of the Companies Act, 1956 that need to be entered into the Register required to be maintained under that Section.

(b) Hence, the question of commenting whether the transactions made in pursuance of such contracts or arrangements, were made at prices which are reasonable having regard to prevailing market prices at the relevant time does not arise.

6. In our opinion and according to the information and explanations given to us, the Company has not accepted any Deposits from the public and hence the provisions of Section 58A, 58AA or any other provisions of the Companies Act, 1956 read with the Rules framed there under are not applicable.

7. *In our opinion, the internal audit function has to be made commensurate with the size of the Company and nature of its business. The Internal Audit coverage during the year was minimal. Internal Audit function needs to be strengthened for timely performance, reporting, compliance, extending the scope to the major online Stations & regional head quarters, registered office and Central Accounts Office, emphasizing on critical areas and taking timely monitoring action, so as to ensure effective internal controls. The closing balances as appearing in the books are required to be reviewed through internal audit.*

8. As per the information and explanations given to us, the maintenance of Cost Records has not been prescribed by the Central Government under Section 209(1)(d) of the Companies Act, 1956.

9. (a) *According to the information and explanations given to us and on the basis of our examination of the Books of Account, during the year the Company has been generally regular in depositing undisputed Statutory Dues, including Provident Fund, Employees' State Insurance, Income Tax, Sales Tax, Wealth Tax, Customs Duty, Cess and other statutory dues applicable to it with the appropriate authorities except as stated below:*

- *In respect of foreign stations not visited by us, since the records are kept at the stations, we are unable to comment whether the dues are timely deposited. In case of foreign stations visited by us, the accounts of statutory dues are under reconciliation.*
- *The Provident Fund dues pertaining to the employees of the contractors / sub-contractors aggregating Rs.38.14 million are kept in a separate bank account in the absence of their registration numbers.*
- *The Company is generally regular in depositing Tax Deducted at Source except in case of TDS on delayed payment charges to oil companies which has not been deducted. (refer Note No. 55(d)*

However, at certain locations, the Company has not reconciled Tax deducted at Source and payable as at year end. The Company has not deducted tax on certain provisions made at the year end.

- *The Company is in the process of reconciliation of Service Tax recoverable and Service Tax payable.*
- *The Service Tax including Input credit to be availed and TDS, EPF, ESIS, Profession tax and airport tax accounts are being reconciled. There have been certain delays in depositing of statutory dues at different locations. (refer Note No. 55 & 56)*
- *As on 31st March, 2014, there are undisputed service tax dues (to the extent identified) amounting to Rs. 1,548.4 million and income tax dues of Rs. 139.2 million outstanding for more than six months.*

As stated above, in the absence of reconciliation, we are unable to determine whether there are any other undisputed dues payable in respect of above as at 31st March, 2014 for a period of more than six months from the date they became payable. (refer Note No. 55 & 56)

(b) According to the information and explanations given to us, there are no dues outstanding of Sales Tax, Income Tax, Customs Duty, Wealth Tax, Service Tax, Excise Duty or cess on account of any dispute other than mentioned below:

Name of Statute	Amount (Rs. in Million)	Nature and Forum where dispute is pending
Income Tax Act, 1961	885.8	Demand Notices received by the Company which are under Appeal.
Customs Duty and Service Tax	4554.8	Customs Duty and Service Tax demanded by the Tax Authorities
Municipal Taxes / House Tax	147.9	Property Taxes / House Tax demanded by Municipal Authorities

10. *The accumulated losses are more than the net worth of the Company and Cash Losses have been incurred in the current and previous financial years. However, the accounts of the Company have been prepared on going concern basis based on the assumption that the company is going to turn around and have improved financial performance in future. (refer Note No. 86).*

11. According to the information and explanations given to us and based on the documents and records produced to us, the Company has not defaulted in repayment of dues to banks and financial institutions. *However as on the date of the Balance Sheet, there were overdue interest on loans Rs. 356.4 million outstanding for payment. It was also observed that there were delays in repayment of interest and principal during the year.*

12. According to the information and explanations given to us and based on the documents and records produced to us, the Company has not granted loans and advances on the basis of security by way of pledge of shares, debentures and other securities.

13. In our opinion and according to the information and explanations given to us, the nature of activities of the Company does not attract any special statute applicable to chit fund and nidhi/mutual benefit fund/ societies.

14. The Company does not deal in shares, securities, debentures and other investments.

15. According to the information and explanations given to us, the Company has given guarantees for loans taken by its subsidiaries from banks. The terms of such guarantee are not prima facie prejudicial to the interests of the Company.

16. According to the information and explanations given to us, the Term Loans were applied for the purpose for which the loans were obtained.

17. According to the information and explanations given to us and on an overall review of the Balance Sheet and Cash Flow of the Company, we report that out of short term loan initially taken for working capital, amounting to Rs. 2,456.4 million outstanding as at 31st March, 2014 have been used for long term purposes.

18. The Company has not made any preferential allotment of shares to parties or Companies covered in the Register maintained under Section 301 of the Companies Act, 1956.

19. As per the information and explanations furnished to us no Debentures were issued during the year.

20. The Company has not raised any money through public issue during the year.

21. During the course of our examination of the books and records of the Company during the year, carried out in accordance with the generally accepted auditing practices in India except *as stated in Note No. 58 and 59 regarding misappropriation of funds at Kolkata and differences in cash at Sydney station and recoverable dues from agents defaulted during the year Rs.373.8 million where the precise nature of default is yet to be established,* we have neither come across any instances of material fraud being noticed or reported on or by the company, nor we have been informed of any such instances by the management.

For and on behalf of	For and on behalf of	For and on behalf of
R. Devendra Kumar & Associates	**Kapoor Tandon & Co**	**PKKG Balasubramaniam & Associates**
Chartered Accountants	Chartered Accountants	Chartered Accountants
FRN 114207 W	FRN 000952C	FRN001547S
Sd/-	Sd/-	Sd/-
(D.K. Gupta)	**(Rajesh Parasramka)**	**(C. Suresh)**
Partner	Partner	Partner
M.No. 009032	M.No.074192	M.No.204602

Place: New Delhi
Date: 11 December 2014

MANAGEMENT REPLIES TO THE AUDITORS' REPORT OF THE SATUTORY AUDITORS FOR THE FINANCIAL YEAR 2013-14

Sr. No.	Audit Observations	Management Comments
	We have audited the accompanying financial statements of AIR INDIA LIMITED, ("The Company"), which comprising of the Balance Sheet as at 31st March 2014, the Statement of Profit and Loss and the Cash Flow Statement for the year then ended, and a summary of Significant Accounting Policies, Notes and other explanatory information.	This is a statement of fact.
	MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS	
	Management is responsible for the preparation of these financial statements that give a true and fair view of the financial position, financial performance and cash flows of the company in accordance with the Accounting Standards (AS) referred to in sub-section (3C) of Section 211 of the Companies Act, 1956 ("the Act"), read-with general circular no.15/2013 dated 13/09/2013 of the Ministry of Corporate Affairs in respect of Section 133 of the Companies Act,2013.This responsibility includes the design, implementation and maintenance of internal controls relevant to the preparation and fair presentation of the financial statements that are free from any material misstatement, whether due to fraud or error.	This is a statement of fact.
	AUDITOR'S RESPONSIBILITY	
	Our responsibility is to express an opinion on these financial statements based on our audit. We have conducted our audit in accordance with the Standards on Auditing issued by the Institute of Chartered Accountants of India. These standards require that we comply with the ethical requirements and plan and perform the audit to obtain a reasonable assurance whether the financial statements are free from any material misstatements.	This is a statement of fact.
	An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of the accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.	This is a statement of fact.
	We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified audit opinion.	This is a statement of fact.

Sr. No.	Audit Observations	Management Comments
	BASIS FOR QUALIFIED OPINION	
1.	*We invite attention to Note No. 1(c)(4) read with Note No.62 regarding balances of inventory migrated to RAMCO system (Ramco) and report as under :*	
	a. As stated in Note No. 1(c)(4)(ii) read with Note No.62, repairable, are expensed only at the time of scrappage. As such the repairable are not charged to consumption at the time of its issue. The accounting policy of not charging of the repairable items at the time of its initial issue, in our opinion is not in accordance with the provisions of "AS-2 on Inventories" read with AS-10 on Fixed Assets. Further during migration, wherever the weighted average rates of inventory items were not available, these were valued at the latest available weighted average rate / catalogue price. The valuation of inventories at latest weighted average / catalogue price is also not in accordance with the provisions of AS-2 as these should have been valued at its original weighted average cost or net realizable value, whichever is lower. The precise financial impact of the same on accounts is not ascertained.	Repairable are not charged to consumption at the time of issue as per the accounting policy. Repairable Inventory have a life greater than the operating cycle of the company and may be reused until they are beyond economic repair. The accounting practice which was different in both the erstwhile entities i.e. AI & IA have been harmonized in the new RAMCO system which resulted in increase in the valuation of inventories in 2012-13 as the number of Repairable which were earlier charged off to consumption under the erstwhile system have now been accounted as inventory. The company is in the process of streamlining the accounting of Repairable based on the report submitted by a Consultant (M/S KPMG) and the new procedure will be followed in FY14-15. The valuation of Inventories where the weighted average rates were not available are also being corrected in the RAMCO system to bring it in line with established accounting rules and practices.
	b. Provision has not been made in accounts for :	
	i. Differential provision required (to the extent ascertained) Rs. 316.1 million towards valuations/ quantities remaining to be corrected. (refer Note No. 62(iii));	The process of correcting the valuation/ quantity differences is expected to be completed during 2014-15. This will be done in RAMCO system to bring it in line with established accounting rules and practices.
	ii. Inventory items valued at Rs.1181.1 million further migrated to Ramco during the year as "unplanned receipts" stated to be on the basis of physical availability for which adequate records to substantiate the physical availability and the cost thereof are not in possession of the management (refer Note No. 62(v)); management (Note 62(v)).	The Inventory balance of Rs.1,181.1 further migrated to RAMCO as "unplanned receipts" is on the basis of physical availability provided by the respective regions and represents the Inventory not initially migrated to RAMCO in the year 2012.
	iii. Differential values Rs.19.7 million of aircraft rotables included in inventories remaining to be corrected (refer Note No. 62 (vi));	During the migration process in 2012-13 certain aircraft Rotables were also uploaded in RAMCO system and carried as Inventory at weighted average cost/ catalog price. In FY 14-15 the correction exercise has been undertaken by the Management and these items have been identified to the extent of Rs.5,395.5 million against which a provision towards Inventory reconciliation has been created to the extent

Sr. No.	Audit Observations	Management Comments
		of Rs.5,375.8 million. Necessary provision in accounting of any deficit will be carried out as and when the corrections are executed.
	iv. Materials issued to in-house repair jobs valued at Rs. 3532.4 million where the work-orders have been closed/completed/pre-closed/cancelled but are lying unadjusted in Ramco and Expendables valued at Rs. 381.0 million included therein (refer Note No. 62(viii));	Inventories at the year-end include balances under in-house repairing jobs carried under "work order suspense internal/External" which contains materials issued and repair charges in respect of work orders in progress which have not been closed as of year-end. These items may include consumables/repairables/ expendables as per the accounting process followed in the RAMCO system. To the extent of expendables included of Rs. 879.5 million, a provision of Rs 498.5 million has been made and accounting for the remaining items shall be done as and when these work orders are closed in the RAMCO system.
	v. Inventory balances aggregating to Rs. 1485.1 million lying under various intermediary accounts for which consumption/issues have not been updated (refer Note No. 62(ix));	Pending reconciliation/ rectification of Inventory balances, no provision has been made towards Inventory balances aggregating to Rs 1485.1 million lying under various intermediary head of account for which consumption / issue / scrappage has not been updated in RAMCO till 31.03.2014. Necessary accounting adjustments required shall be carried out in due course when these balances are reconciled.
	vi. Consumption of Rs.970.1 million accounted in Ramco but reversed in the books of account (SAP) for which necessary records are not available (refer Note No. 62(x)).	The consumption of Repairable to the extent of Rs 970.1 million has been reversed based on data analysis done of the consumption figures wherein Repairable have been charged off to consumption which is not in line with the accounting policy of the company
	c. The precise financial impact of free of cost, cannibalized items and items of inventory received along with aircrafts, taken in inventory and valued at latest weighted average cost, pending corrections in valuations as well as quantities , pending scrappages, process of accounting followed by the company for accounting of repairables and pending reconciliations of various inventory related accounts as stated in Note No. 62 has remained unascertained and can not be commented upon.	The company has already taken action to correct the situation regarding the accounting of free of cost and cannibalized items and items of inventory received along-with the aircraft and necessary instructions to this effect have been issued to the planners that in respect of such items the value of the inventory should be taken at Rs 1/-.
	d. As stated in the note, the data relating to last movement of inventory items is not available in Ramco and supporting details of quantities and details migrated have not been documented. The non-moving items have therefore been identified by the management on the basis of movement data available in legacy system which are as compiled by the management outside the Ramco. The precise impact	The management has taken all efforts in order to track the data relating to last movement of inventory. The non-moving items have been identified on the basis of data migration to RAMCO. Based on the movement of data available in the legacy systems items have been identified as non-moving and provision

Sr. No.	Audit Observations	Management Comments
	of the above on carrying value of inventory has remained unascertained.	towards the same has already been made in the accounts to the extent of Rs.4,875.6 million.
	e. As stated in Note No. 62(ii), there have been inadequate documentation and internal controls in the process of migration of balances into Ramco and migration audit has not been conducted. Process of physical verification of migrated inventory is yet to be completed, and necessary accounting actions towards the differences noted during migration are yet to be adjusted, the provision of Rs. 353.9 million in respect of un-reconciled differences in migration has been reversed during the year though the same are yet to be reconciled. In our opinion these differences need to be provided for.	The physical verification of migrated inventory is still in progress and necessary accounting action towards the differences noted will be taken after the same is verified by the respective regions. Since the opening and closing balances in RAMCO have been reconciled the provision of Rs.353.9 million was written back.
	f. As stated in Note No. 62(xv), Confirmations of balances in respect of inventories with third parties are pending. Vendor related accounts are pending reconciliation and Liability towards goods /expanses is being accounted for to the extent of available data in Ramco. Verification, reconciliation and necessary accounting adjustments in relation to non- aircraft inventory balances carried in the books of accounts are also stated to be in progress for which no comments can be offered. The precise impact arising out of the above has remained unascertained.	Confirmation of balances in respect of Inventory with third parties are pending and the RAMCO system is being upgraded in FY 14-15 in order to provide for such vendor balances and reconciliation under the new advanced version. Further the interface of RAMCO with SAP would resolve the vendor related issues and help the company in the reconciliation of vendor balances.
	g. The company is carrying inventory related to phased out fleet CF6 engine parts amounting to Rs. 801.3 million which has not been certified to be useable for other aircrafts which as per the accounting policy followed by the company needs to be provided for. (refer Note No. 62(xi))	This is a statement of fact. However the set of these spares in other aircraft is being ascertained or alternatively these spares would be transferred to the MRO subsidiary company for carrying out third party jobs.
	Therefore in our opinion, as at the year end, balances as stated in inventories amounting to Rs. 9,040.7 million is overstated with a consequential impact on loss for the year understated to the extent of Rs. 9,040.7 million. The precise impact of over valuation/ discrepancies in quantities/values is not fully ascertained and therefore cannot be commented upon.	Management is in the process of reconciling the balances in RAMCO and taking necessary corrective action in respect of open work orders, part data changes (Rotables being included as inventory), proper accounting of free of cost, cannibalized/ spares received at the time of delivery of aircraft so that they are carried in the RAMCO system at correct values. Management has also identified and rectified in FY 14-15 Rotables to the extent of Rs.5,395.5 million which were shown as inventories. Similarly, price /valuation discrepancies have been provided/ Corrected in the subsequent period. The company has also engaged outside

Sr. No.	Audit Observations	Management Comments
		consultants to advise on streamlining the entire system of Inventory management and control so as to bench mark the current practices to the best practices as well as rationalize the system of ordering. The RAMCO system is also being upgraded to 5.7 version. The management is also taking steps to ensure that the discrepancies noticed during migration/ post migration with regard to physical verification and valuation of inventory are rectified and suitable accounting action taken. In view of this the management is of the view that such overstatement if any would be rectified in due course of time. Management has already made provisions which are more than 40% of the value of the inventory which it considers adequate to take care of such anomalies.
2	*As stated in Note No. 79, the company has been carrying the net balance of deferred tax asset amounting to Rs. 28,425.2 million which was recognized in years 2007-2008 and 2008-2009. In the subsequent years deferred tax assets have been recognized only to the extent of deferred tax liabilities as a prudent measure. Since the virtual certainty as stipulated under Accounting Standard-22, Taxes on Income, had not been established in the year 2009-10, the carrying amount of deferred tax asset should have been charged off in the year 2009-10 itself. Consequent to above, the balance in Prior Period Adjustments in the 'Statement of Profit and Loss', has been under-stated to the extent of Rs. 28,425.2 million and balance of Deferred Tax Assets under Non-Current Assets, has been overstated to that extent. With the consequential effect, the "Loss after tax for the year" carried forward to the Balance Sheet, is understated to the extent of Rs. 28,425.2 million. Further during the year deferred tax asset has been recognized to the extent of deferred tax liability amounting to Rs. 2,889.7 million. Though the management is confident of realizing the deferred tax asset based on the turn-around measures which are at various stages of implementation as stated in the said note No.79, the impact thereof as expected by the management cannot be conclusively established and therefore it has not been possible for us to conclude as to whether there is a virtual certainty as envisaged under the provisions of AS-22. We have therefore not been able to form our opinion in respect of realisability of the deferred tax asset recognized periodically. The overall impact of the above on the loss for the year could not be ascertained.*	The Auditors had already drawn attention in the years 2009-10, 2010-11,2011-12 and 2012-13 on this issue in the Annual Accounts. The DTA relates to the provision which was made in the year 2007-08 and 2008-09 when the Aviation Industry was going through a severe crisis on account of high fuel cost, global recession and low yields. In the last three years the company has taken several initiatives towards improving its financial and operational performance. The company has turned EBITDA positive in 2012-13 and maintained the same in 2013-14 as a result of these measures. Reversal of the DTA created in 2007-08 & 08-09 would be incorrect at this juncture due to the improved performance of the Company and would reflect a lack of confidence in the implementation of the Management's Turnaround Plan (TAP) which aims at return to profitability within a reasonable period of time. As a result of various measures taken by Management in the last three years the performance during 2013-14 significantly improved in terms of On time Performance (OTP), passenger load factors, fleet utilization, availability of aircraft. Some of the measures taken to improve profitability are discontinuation

Sr. No.	Audit Observations	Management Comments
		of PLI effective 01 July 2012, rationalization of routes, cutting down loss-making routes, operationalization of Subsidiary Companies, implementation of the Asset Monetization program, upgradation of IT systems in terms of network planning and Hub control, induction of 787 aircraft on various international and domestic routes and grounding of old fleet, rationalization of Pay Structure as per DPE norms, etc. GOI has inducted Rs.60,000.0 Million in FY 13-14 and Rs.52,800.0 Million during the F.Y. 14-15 and has so far infused over Rs. 180,000.0 Million from the period 2011-12 until December 2014. GOI's commitment to infuse equity as per the TAP/FRP, has already been communicated to the Company by the MOCA provided certain specified milestones are met. In July 2014, one significant milestone after the merger was achieved when Air India was admitted as a member of the elite STAR Alliance group which provides a string of benefits, including connectivity to 1328 destinations spread across, 21900 flights. An Overseeing Committee comprising Secretary-Civil Aviation, Expenditure Secretary, AS& FA and Joint Secretary of MOCA has been constituted in order to closely monitor performance of Air India vis-à-vis milestones set in the TAP. For the year FY 12-13, and for the first 9 months of year FY13-14, the performance of the company has been more or less in line with the target set in the TAP. As a result of these measures, the Company is confident of achieving the targets set in the TAP, and return to cash positive in 2018 and Profit After Tax (PAT) in 2020. The management is therefore confident of utilizing the net deferred tax asset to the extent of Rs.28,425.2 million already recognized during the initial 2 years of merger i.e. 2007-08, 2008-09 against future tax liability. As a prudent measure the company has ceased to recognize the excess of Deferred Tax Asset (DTA) over Deferred Tax Liability (DTL) wef 2009-10 and DTA is recognized only to the extent of DTL.

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		Due to various initiatives which have been taken to improve operational and financial efficiencies which are at various stages of implementation, (supported by the GOI and the Regulator) the Company plans to have a sustainable profit in the near future to set off against the carry forward losses.
3	*As stated in Note No. 28, the company is yet to apportion cost of SAP capitalized in its books and maintenance charges to the subsidiary companies where the SAP is being implemented/has been implemented. The accounting treatments arising out of the migration audit are also pending in certain cases. Impact thereof has not been ascertained.*	This is a statement of fact
4	*As stated in Note No. 33(b) the company is in occupation and carrying in its books property at Vasant Vihar as lease hold property valued at Rs. 51295.1 million for which lease deed has not been executed and the regularization of title of the company is pending. No provision has been made for regularization charges/ penalties payable, if any, for such occupation as the amount is not ascertained. The carrying value of the asset in the accounts is subject to regularization of the title of the company and since the matter is still pending with the competent authority, effect on the same on the financial statements cannot be commented upon. The impact of unearned increase payable, if any, is also not ascertained.*	The company has been constantly pursuing with the Land & Development Office (L&DO) to regularize and reinstate the property rights in respect of the leasehold property for the housing colony situated at Vasant Vihar, New Delhi. An Independent consultant M/s Munish Verma and Associates have also been appointed to regularize this property and to reinstate the lease. In a meeting held on 9th October, 2014 Air India was informed that since allotment was cancelled in 1983, unauthorized occupational charges may be levied by L&DO. As desired by L&DO office, Air India management has submitted all sanctioned plans of the buildings constructed at the Air India housing colony along-with the master layout plan approved by Municipal Corporation of Delhi (MCD) /Delhi Development Authority (DDA). This matter is also being pursued at the Ministry of Civil Aviation level. Air India has also been regularly paying ground rent to L&DO and property tax to MCD. In view of above, the management is confident of regularizing this issue and re-instatement of the lease deed in favour of AI in 2014-15 by the payment of certain damage charges and reasonable occupational charges.
5	*As stated in Note No. 33(d) the company has sold 332 flats out of the 508 flats constructed on the land at Nerul, Navi Mumbai. Even though the rights, interest and possession in respect of the flats sold have been created in favour of the concerned members, the property is being carried under Gross Block of Fixed Asset and depreciation is being charged on the composite cost. Tax liability, if any, arising out of this transfer has also not*	The company had been allotted land at Nerul, Navi Mumbai admeasuring 100,021.60 sq. mtrs for development of staff housing complex. 508 flats have been constructed on a portion admeasuring 28626 sqmtrs and it has been decided to sell some of these flats to the employees of the company. In terms of the orders of Hon'ble High Court at Bombay (the

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	been computed and has not been accounted for. Since the transfer of rights in the flats sold has completed, in our opinion necessary account effect of the sale need to be given in accounts. However in view of the reasons stated in the note, the precise impact of the above has not been determined and therefore cannot be commented upon.	Court), the company issued allotment letters to 332 allottees out of 508 flats constructed. The entire amount of additional premium payable to CIDCO in terms of the orders of the Court towards the flats allotted, as collected from the employees was paid to CIDCO. The Company has handed over physical possession of 280 flats after receipt of NOC from CIDCO. As per the legal opinion obtained vide letter ref no. MVK/CORP/AI/121/2014 dated 13th November 2014, the company has vide its allotment letter, possession letter followed by execution and registration of flat sale deeds has only created the right, interest and has handed over only the actual and physical possession of the flats in favour of the respective members. However, pending demarcation and conveyance of title in favour of the registered societies, Air India continues to hold the title to the property. The legal title to the underlying property can only be conveyed by a Tripartite Conveyance Deed between the respective registered society, Air India and CIDCO. Since the process of transfer of title is not yet completed the cost of property at Nerul comprising cost of land and cost of construction is being carried in fixed assets and depreciation is being charged as per the laid down accounting policy. Taxes on transfer of property, if any, have not been ascertained. Necessary accounting entries will be made in the books of accounts on completion of these formalities. No provision for additional premium payable to CIDCO towards unsold flats has been made since the allottees for these flats are not yet finalized. Additional lease premium towards non-development of the surplus land Rs. 270.7 million payable to CIDCO has been capitalized under land cost. The company is also in discussion with CIDCO for development / sale of balance unoccupied land area
6	*As stated in Note No.29, 37,38, 53 to 55, 60 to 67, 70 and 74, regarding confirmations and reconciliation including matching of debits/credits in various balances in subsidiary/ other assets/ liabilities /income /expenditure accounts at certain locations and pending reconciliation of TDS / service tax, intermediary/ transitory accounts. The accounts of various inventory related vendors and other accounts are also pending reconciliation and are being compiled and reconciled with the legacy/SAP data. The year-end balances of inventory items as well as consumption*	Audit comments are noted

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	during the year have been accounted based on reports generated out of Ramco, which are to be reconciled with the accounts. Balances of fixed assets/rotable items migrated to SAP are also being reconciled item-wise. Reconciliation of various revenue related accounts as stated in the note is also pending. We are unable to comment on the impact of adjustments arising out of reconciliation/confirmation of such balances, on the Financial Statements. The impact of the same on the Financial Statements is not ascertainable.	
7	*As stated in Note No. 42, the company is yet to conduct the impairment assessment in accordance with the requirements of AS-28 and the exchange differences amounting to Rs.43,997.1 million have been capitalized pending impairment assessment of the Aircraft fleet. As stated in Note No.44(b), certain aircrafts have been identified for sale/lease subsequent to the Balance sheet date but the assessment of impairment loss has not been conducted. The overall impact due to impairment loss has remained unascertained and therefore cannot be commented upon.*	The Management has decided to sell/lease the balance three 777-200 LR since it was uneconomical to operate this fleet due to high fuel costs. These aircraft which were acquired in 2009 were used to operate the US routes non-stop. However AI is amongst the few airlines who have acquired this Long Range Aircraft in its fleet to operate ultra long haul routes. Management is of the view that there is no diminution in the value of these assets and is in serious negotiations with an airline to lease out the aircraft for a period of seven years which is also extendable at a lease rental which covers a substantial portion of the loan repayment and interest cost. As per the data published by AVITAS and ACCEND who are aircraft valuers the Market value of these aircraft is in the range of USD 101 million to USD 105 million which is equal to the written down value of the aircraft. There is therefore no basis for making any provision towards diminution in the value of the aircraft.
8	*As stated in Note No. 46, manufacturer and supplier credits entitlements received at the time of delivery of aircrafts amounting to Rs.1,545.4 million has been recognized as Incidental revenue instead of adjusting to the cost of assets as required under the provisions of AS-10 on Fixed Assets. Loss for the year is understated to that extent. The precise impact on depreciation charged during the year has not been computed and is therefore unascertained. The accounting policy stated at Note No. 1(C)(5) is also not in compliance with AS-10.*	The manufacturer and supplier credits mainly relate to the 787 aircraft which are being delivered in the fleet from 2012 onwards. Since these aircraft are being sold and leased back under the SLB mechanism these credits cannot be adjusted against the cost of the assets and have to be recognized as part of Incidental revenue. The company therefore does not agree with the Auditors observations.
9	*As stated in Note No. 43, the balances of unutilized duty credit entitlement scrips under Serve From India Scheme (SFIS) amounting to Rs.6934.2 million are being carried in the financial statements as advances recoverable in cash or kind. Since these scirps have expired and are yet to be validated, the carrying balance in the account (net of utilsation subsequent to the*	The company has in its possession SFIS scrips amounting to Rs.6,735.4 million which expired in June and September 2014 for which the company has already approached the Ministry of Civil Aviation to take up with the office of DGFT for extending the validity of the scrip by

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	Balance Sheet date) Rs. 6736.4 million needs to be provided for. Further the company has accounted the SFIS claim relating to the year 2007-08 amounting to Rs. 4735.9 million wherein there is no confirmation of the acceptance of the company's claim and scrips are also yet to be issued. In our opinion, the company's claim for these scrips still being under acceptance, the recognition of the same as "Extra ordinary Item" is not in accordance with the provisions of AS-9 on Revenue Recognition.	24 months as also to permit the company to use the SFIS credits towards payment of Service Tax/ and/ or make it transferable/tradable. The mechanism for adjustment of these scrips towards excise duty payable on ATF has been established in consultation with excise authorities in Mumbai and West Bengal. However by the time the company had all the approvals in place the validity of majority of the scrips had expired. The Ministry of Civil Aviation has already forwarded a draft detailed Cabinet note to the DGFT office on 11th November 2014 for extending the validity of the scrips which have so far expired. The management is confident of having the scrips revalidated in due course after receiving the necessary approvals. The utilization of the scrips will be primarily towards payment of excise duty for domestic sourcing of ATF. The company is also planning to transfer certain amount of scrips to its Group companies/ Subsidiaries /JV's who are planning to import Capital equipment and machinery in the next two years for their use and also for payment of normal customs duty on spares. As regards the claim of 2007-08 for Rs.4,735.9 million, the company has accounted the same on accrual basis pending the receipt of scrips. Management is confident of receiving these scrips in due course of time from the office of the Director General of Foreign Trade (DGFT) as the application is under due process.
10	*As stated in Note No 44(a),loss on account of sale of two B777-200LR aircrafts amounting to Rs.2,779.5 million has not been accounted for, while these aircrafts were retired from active use and held for disposal. These aircrafts are required to be stated as Surplus Asset at Net realizable value and resultant loss needs to be accounted for.*	Management is of the view that the sale of the five B777-200LR aircraft was beneficial to the company in terms of repayment of the guaranteed loans amounting to US$ 336.5 million) as it reduced the interest costs and cost of maintaining the fleet in the future. The potential saving as a result of sale of five aircraft was estimated at US$ 80 million per annum (USD 60 million towards Guaranteed Loan repayment and Interest and USD 20 million towards maintenance) The Engines were under a Power by the hour arrangement with GE. While the company has accounted the losses for 3 aircraft where the title transfer was effected prior to March 2014 for the balance 2 aircraft

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		where the title transfer was effected in April/ May 2014 the losses will be accounted in FY 2014/2015. These aircraft cannot be classified as surplus assets as they were doing scheduled flights prior to their grounding for undergoing major checks on airframes/ engines which were required to meet the delivery conditions as agreed in the Sale agreement. Hence the loss of Rs 2779.5 million on account of sale of two B777-200LR aircraft need not be provided for in 2013-14 accounts.
11	*No provision has been made in the accounts for the following :*	
	a. Differential Guarantee Fee amounting to Rs. 2,524.9 million for which approval of competent authority is yet to be received. (refer Note No. 31);	The company has taken up the issue of waiver of guarantee fee on all Govt. Guaranteed loans with the Ministry of Finance through the Ministry of Civil Aviation. This subject was also discussed and highlighted during TAP and FRP oversight committee meetings. The Company has provided for a fee of 0.2% on all Govt. Guarantees for the period FY 2011/12, 12/13,13/14. The excess provision made in the earlier years of Rs 1062.9 million has been written back in 2013-14. The Ministry of Finance has written to Ministry of Civil Aviation (MOCA) that the subject matter be placed before the Cabinet for a decision after due Inter Ministerial consultations. The company is confident that the Cabinet will favorably consider the proposal of the MOCA since the company is under a Financial Restructuring Plan wherein the Govt. is actively infusing Equity into the company. Hence, the balance amount of Guarantee fees i.e the difference between 0.5%-1.5% and 0.2% amounting to Rs. 2524.9 million has been shown as Contingent Liability. In addition the company has also shown Rs.3819.4 million towards additional guarantee fee for delayed payment, if any to be charged by the Govt. as part of Contingent Liability.
	b. Advance outstanding for purchase of Nerul Land Rs. 24.6 million where execution of lease deed, hand over of possession is pending and the plot is subject to encroachments. (refer Note No. 35);	This is a statement of fact.

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	c.	*Debit balance in Pax Credit sales (intermediary account) to the extent of Rs. 500.7 million which represents excess revenue or excess liability recognized in accounts. (refer Note No. 60(b));*	*The Company recognizes revenue based on passengers flown during the year and the balance of unflown tickets is carried as liability at the year end. There is a balance of Rs 500.7 million (DR) under Pax Credit sales an intermediary account which needs to be reconciled and no provision is therefore considered necessary towards such balance.*
	d.	*Dues from various tenants of Air India Building to the extent Rs. 370.2 million which are older than 3 years. (refer Note No. 60(e));*	Based on Arbitration awards/ Court awards in favor of the companies the provisions made in respect of the cases have been written back in the year 2012-13 and these are now considered recoverable
	e.	*Penalty and interest (amount unascertained) payable, for delayed payment of service tax, since the accounts are under reconciliation. (refer Note No. 55(e));*	Audit comments are noted
	f.	*Interest payable to Airport Authority of India as per letter from MOCA Rs. 1408.3 million (refer Note No. 66(a));*	The company has continuously contested its liability of payment of Interest on its dues to MIAL /DIAL/ HIAL and AAI. This was based on the ground that the interest charged by these institutions is totally disproportionate considering the financial position of the company which is under a Financial Restructuring plan (FRP). Besides this, due to delayed infusion of Equity by Air India from GOI, AI had to incur additional Interest charges on account of higher borrowings. Further these authorities have also been asked to produce proof of pecuniary loss suffered by them as a result of the delay in the payment of dues by AI. In order to avoid any such charge the company has set up Escrow accounts towards payment of UDF/DF/PSF charges from the IATA BSP dues, in favour of DIAL, MIAL and AAI. These Escrow account would considerably help reduce the outstanding towards the airport authorities and make them current in respect of statutory dues.
	g.	*Interest payable to various airport authorities on account of delayed payments which as per the company is disputed and hence the precise amount payable is not quantifiable (refer Note No. 63 to 67);*	
	h.	*Impact arising out of the implementation of Justice Dharmadhikari Committee report on the accrual of retirement benefits for the employees where the report has been implemented as the same is not separately computed. The consequential impact on the disclosures made under AS-15 has also remained unascertained. (refer Note No. 77(c)) ;*	The Justice Dharmadhikari Committee (JDC) recommendations have been implemented for all the General Category of Officers totaling to around 3200 employees effective 1st October 2014. As regards remaining employees the process of discussions is continuing between management and several Unions for implementation of the same. The complete

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		implementation of the JDC recommendations is likely to result in a saving of Rs. 320 crores per annum as per the note submitted by the Ministry of Civil Aviation (MOCA) to the Cabinet. However, there will be an increase in the liability on account of the retirement benefits like Gratuity and Leave encashment. The Actuaries have, based on available data, made an assessment of the additional impact of implementation of the JDC report for all employees and they have arrived at an approximate additional impact of Rs 137 crores in 2014-15. At this stage it is not possible to assess the exact impact till the implementation of the JDC report is completed for all the employees. Further, the Management needs to also take a decision whether the additional impact is to be distributed to the subsidiary companies as a number of employees have now been transferred to Air India Engineering Services Ltd. (AIESL) and Air India Air Transport Services Limited (AIATSL).
12	*As stated in Note No. 82, regarding disclosure requirements under revised Schedule VI, while the exemption from the MCA for such non disclosure has not been received. Further the requirements of revised schedule VI have been complied with to the extent possible and classification of current/non-current assets/liabilities is as arrived at by the management. The impact of pending compliances can therefore not be commented upon.*	Audit comments are noted
13	*We invite attention to the disclosures in following Notes forming part of accounts for which precise financial impact on accounts has remained unascertained:*	
	a. Note No. 33 regarding pending registration formalities and title deeds being obtained in respect of certain properties, Note No. 37 regarding various fixed assets data not migrated to SAP and classification of certain fixed assets to be aligned and the data pending reconciliation, Note No. 39 (b) regarding classification and depreciation on certain assets, the financial impact of these have remained unascertained;	Audit comments are noted
	b. Note No. 33(d) regarding additional premium payable to CIDCO towards non development of surplus land being capitalized;	Audit comments are noted
	c. Note No.36, 51 & 54 regarding strengthening of internal audit process and improvements required with regard to physical verification of cash in hand at the year end as	Audit comments are noted

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		well as physical verification of fixed assets and inventories in accordance with the accounting policies and pending reconciliation of cash in hand and Bank accounts;	
	d.	*Assets retired from active use and held for disposal are also being identified as stated in Note No. 41. Compliance of AS-10 is pending;*	As per past practice Surplus assets being assets retired from active use are being identified based on write off reports which are yet to be reconciled with the scrap board reports completed during the year. Accounting adjustments if any will be carried out after necessary confirmations/ reconciliations.
	e.	*Note No. 47(i) (c) regarding exchange differences arising on short term borrowings treated as long term monetary items, Note No. 47(ii) regarding Exchange Differences arising on settlement or reporting of certain transactions, not disclosed separately; Note No. 47(iii) regarding certain closing balances not stated at FEDAI rates at the year end, and para 47(i) (d) regarding treatment of exchange differences regarded as adjustments to interest cost in relation to periods up-to March 31,2011, which is not in compliance with the requirements of AS-16 on Borrowing cost read with AS-11 on Effects of Changes in Foreign Exchange Rates;*	Audit comments are noted
	f.	*Note No. 50 & 51 regarding strengthening of internal controls at certain locations/ stations and maintenance of adequate records;*	Audit comments are noted
	g.	*Note No. 52 regarding certain items being accounted for on cash basis;*	This is a statement of fact
	h.	*Note No.57 & 58 regarding pending accounting adjustments arising out of the fraudulent transactions;*	Audit comments are noted
	i.	*Note No. 60 (c) regarding pending discrepancies in revenue accounted for and pending reconciliation of data related passengers flown and other revenue accounts;*	Audit comments are noted
	j.	*Note No. 60(d) regarding dues from erstwhile GSAs;*	Audit comments are noted
	k.	*Note No. 60(g) regarding revenue share from Air India Charter Limited accounted based on provisional data.;*	This is a statement of fact
	l.	*Note No. 62(xii) & (xiii) regarding pending reconciliation of aircraft inventory and ascertainment of non moving inventory in respect thereof;*	Audit comments are noted
	m.	*Note No.62 (xiv) regarding spares meant for modification of aircrafts (amount unascertained) are continued to have been included as inventory which is not in accordance with AS-2 read with AS-10.*	Audit comments are noted
	n.	*Note No. 62(xv) regarding accounting of exchange difference during the year-end translation difference at the year-end in respect of inventory related accounts and pending reconciliations as stated therein.*	Audit comments are noted

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	o. *Note No. 74 and 75 regarding non-cognizance of losses incurred by the subsidiary companies and, consequently not providing for diminution in the value of Investments to be in compliance with AS-13 on "Accounting for Investments" and non provision of Advances outstanding with these subsidiary companies where net-worth has completely eroded and these companies are in continuous losses. The company has also recognized interest on advances to these company. The recovery of these dues is subject to turnaround of these companies and the precise impact of the same has remained unascertained.;*	Audit comments are noted
	p. *Note No.77 (a) & (e) regarding ad-hoc provision for wage arrears and pending accounting of dues of employees.*	Audit comments are noted
14	*We further Report that in view of the observations made by us in the paragraphs 1 to 13 above, considering the impact to the extent quantifiable, Loss for the year excluding Prior period adjustments is understated by Rs. 29,666.6 million and Prior Period Adjustments are understated by Rs.28,425.2 million with cumulative effect on loss after tax for the year carried to Balance sheet being understated by Rs. 58,091.8 million, Accumulated losses are understated by Rs. 58,091.8 million, inventories are overstated by Rs. 9,040.7 million and with consequential impact on loss for the year being not determined precisely, current liabilities are understated by Rs. 4,433.9 million, Fixed Assets are overstated by Rs. 12,520.8 million, Other Current Assets understated by Rs. 7,825.7 million, Loans and Advances are overstated by Rs. 11,496.9 million, and balance in Deferred Tax Asset would have been Rs. Nil. The earning per share as computed in Note No. 80 is subject to our observations contained herein.*	Based on the clarifications given by the management against the qualifications given by the auditors, the management is of the view that there is no understatement of loss for the year under review nor any overstatement/ understatement of Assets / Liabilities
	QUALIFIED OPINION	
	In our opinion and to the best of our information and according to the explanations given to us, except for the effects of the matter described in the Basis for Qualified Opinion paragraph, the financial statements give the information required by the Act in the manner so required and give a true and fair view, in conformity with the accounting principles generally accepted in India: (a) *in the case of the Balance Sheet, of the state of affairs of the Company as at 31st March, 2014;* (b) *in the case of the Statement of Profit and Loss, of the Loss for the year ended on that date and* (c) *in the case of cash flow statement, of the cash flows for the year ended on that date.*	Audit comments are noted
	EMPHASIS OF MATTER	
	i. As stated in Note No.77 (c), the company has paid to the employee, 75% of the allowances payable to various categories effective July 2012, pending the implementation of Justice Dharmadikari Committee Report, which is under	The company has made an ad hoc deduction of 25% on the various allowances payable to all categories of employees pending implementation of Justice Dharmadhikari

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	sub-judice. The unpaid allowances amounting to Rs. 6738.6 million have been shown as contingent liability.	Committee Report. Bombay High Court has in its order dated January 28,2014, stated that the status quo in respect of salaries and allowances should continue and referred the dispute relating to change in working conditions for a reference under Section 9A of Industrial Disputes Act. Management is of the view that pending rationalization of the wage structure of its employees, the said amount may be shown as a Contingent Liability and the impact may be recognized in the year of final implementation. In any case, a contingent liability to the extent of Rs 6738.6 million on account of above has been provided.
	ii. As stated in Note No. 59, during the year certain selected foreign and domestic stations of the company were visited by us. These visits were meant to review the original records maintained at these stations and to examine internal controls at these stations. These visits were conducted as per the schedule finalized by the management. Accounts of the other unaudited stations have been incorporated in the consolidated accounts of the company as per the data submitted by the respective stations.	A total of 9 stations were visited by the auditors for audit relating to 2013-14. The scope of the work covered by them during the course of audit was decided by the auditors. Observations raised by them have been suitably replied by the management.
	iii. As stated in Note No. 70, 74 and 75 and in other cases wherever the company has undertaken transactions with subsidiary companies/group companies/Joint ventures, the existence of arm's length relationship in such transactions has not been determined.	The company has maintained arm's length relationship in transactions with subsidiary companies and with the operationalization of ground handling and engineering companies in 2014-15, MOUs and SLAs have been entered into, with these companies to maintain the arm's length relationship.
	iv. Attention is further drawn to the following disclosures in Notes forming part of accounts :	
	a) Note No. 45(c) regarding fuel burn allowance of Rs. 459.7 million accounted during the year based on accrual while the agreement is yet to be executed.	GE has agreed to provide Air India with a Fuel Burn allowance of upto USD 23 million, in respect of engines fitted on the first 13 B787 aircraft. An Agreement to this effect is proposed to be executed after vetting by Ministry of Law shortly. Pending this, the company has taken credit of Rs.459.7 million, representing the amount accrued during 2012-13 and 2013-14.
	b) Note No. 48, regarding merger of Vayodoot Ltd. And consequential adjustments carried out in the accounts of the company.	The merger has been accounted for, in accordance with the normal principles followed in merger/amalgamation of companies.
	c) As stated in Note No. 53(g), the company is yet to be admitted as a member of Star Alliance and joining fee Rs. 639.4 million being carried under "Loans and Advances".	The company has been formally admitted as Member of Star Alliance on 11th July 2014. The joining of Star alliance is likely to result in an increase of 2 to 3 % in Passenger revenue in

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		the future. Star Alliance has 27 member airlines having a network of 1328 airports around the world with approximately 21900 departures per day. The alliance would provide AI passengers with a vast global network offering unmatched reach and connectivity and strategic opportunity for cost reduction through infrastructure sharing. The company is also in the process of adopting global practices in terms of systems and standards and thereby increasing the global visibility for Air India. The passengers will also immensely benefit through the FFP partnership with all Star Alliance members with ability to earn and burn FFP points on any member airline with availability of program benefits across airlines. The costs of integration through IT upgradation have already been accounted in the books based on the incurrence of expenditure. Since the benefits of joining the Star alliance will accrue from the year 2014-15 onwards the expenses of Membership fees for joining Star Alliance will be accordingly written off in the following years as the benefit accrues.
	d) Note No. 55 (d) regarding Delayed Payment charges paid/payable to Oil Marketing Companies amounting to Rs. 2,373.1 million and pending deduction of TDS on the same and interest on delayed payment of TDS/ Service Tax Rs. 514.6 million, have been included under "Finance Cost" as against "Other Expenses".	Since the amount paid to the oil companies, is in the nature of interest cost, the same has been included under Finance cost in 2013-14.
	e) Note No. 73 regarding release sum paid by the company Rs.1269.4 million being amortised over remaining useful technical life as per accounting policy in this regard.	A release sum of USD 4.1 million per aircraft was paid for 7 A320 aircraft, which was under a sale/lease back arrangement. This amount is being amortised over the remaining useful technical life of the aircraft as per the accounting policy since Air India has acquired residual rights in the aircraft.
	f) Note No.81 regarding dues to MSME which are remaining to be identified and interest payable, if any in respect thereof.	Audit comments are noted.
	g) Note No.86 regarding the financial statements of the Company having been prepared on a going concern basis, notwithstanding the fact that its net worth is completely eroded. The appropriateness of the said basis is interalia dependent on company's ability to obtain equity from the Government for meeting its obligations, improved operational/financial performance and the successful implementation of Turn Around Plan approved by the Govt.	The company has implemented the Financial Restructuring Plan (FRP) effective October 1, 2011, to restructure its working capital borrowings. This FRP combined with Turn Around Plan (TAP) would enable the company to improve the financial and operating performance. The Government of India has also supported the company by providing

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<tr><td></td><td>Our opinion is not qualified in respect of these matters.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

1. As required by the Companies (Auditor's Report) Order, 2003, issued by the Central Government of India in terms of sub-section (4A) of section 227 of the Act, we give in the annexure a statement on the matters specified in Paragraphs 4 and 5 of the Order.

2. As required by Section 227(3) of the Act, we report that:

i) We have obtained all the information and explanations, which to the best of our knowledge and belief were necessary for the purposes of our audit except for the matter described in the basis for qualified opinion paragraph;

ii) In our opinion, proper Books of Account as required by law have been kept by the Company, so far as appears from our examination of those books of accounts maintained at the Central Accounts Office/Registered Office / stations of the Company, incorporating the information/returns received from the business areas/ stations/locations including those not audited by us.

iii) The Balance Sheet, the Statement of Profit and Loss and the Cash Flow Statement dealt with by this Report are in agreement with the Books of Accounts and with the returns received from stations/locations not visited by us;</td><td>financial guarantees on loans and sale/lease back transactions, so that the company is able to raise financial resources at a reasonable cost. GOI is also committed that it would infuse equity in the future, that is, upto FY 2020-21 in order to repay government guaranteed loans, as well as interest on NCDs. In view of the above, the company expects operational and financial improvement in performance in the coming years. Barring exceptional circumstances or factors beyond control, the company is expected to be cash positive in FY 2018-19 and PAT positive in 2020-21. Due to the support of GOI and the various measures taken by the company, it is expected that the financial condition of the company would continuously improve in the future, and therefore, the accounts are prepared on the going concern basis.</td></tr>
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	iv) Except for the effects of the matters described in the Basis for Qualified Opinion paragraph, in our opinion, the Balance Sheet, the Statement of Profit and Loss and the Cash Flow Statement comply with the Accounting Standards referred to in sub-section (3C) of Section 211 of the Act, read-with General Circular no.15/2013 dated 13/09/2013 of the Ministry of Corporate Affairs in respect of Section 133 of the Companies Act, 2013;	
	v) The Company, being a Government Company as defined in Section 617 of the Act, is exempted from the applicability of the provisions of the Section 274 (1) (g) of the said Act vide Circular No. 2/5/2001/CV.V General Circular No. 8/2002 dated March 22, 2002 issued by Ministry of Law, Justice and Company Affairs;	Statement of fact.
	vi) Since the Central government has not issued any notification as to the rate at which the Cess is to be paid under Section 441(A) of the Act nor has it issued any rules under the said Section, prescribing the manner in which such Cess is to be paid, no Cess is due and payable by the Company.	Statement of fact.

ANNEXURE TO INDEPENDENT AUDITORS' REPORT

Referred to in paragraph (1) under Report on Other Legal and Regulatory Requirements of our Audit Report of even date

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1	(a) *The records relating to fixed assets including rotables maintained by the company are stated to be in the process of updation with reference to full particulars, quantitative details and location thereof. The Company has not yet updated fair value of assets in the Fixed Assets Register at certain locations and it is informed that the same is in process. The reconciliation of Fixed Asset Register for aircraft rotables and other fixed assets with financial records is stated to be in progress.*	The Company has already implemented the Fixed Assets module which would streamline the data on Fixed Assets including the details of location and quantitative details on the SAP ERP system. The reconciliation of Fixed Asset register for aircraft rotables with the other financial records is still in progress.
	(b) The Company has a policy of physical verification of Fixed Assets on a rotational basis so that every asset is verified once in every two years. It is observed that during the year, the physical verification has been conducted only at few locations. The physical verification process is stated to be under streamlining and as such every asset is not physically verified as required under the laid down procedure. The discrepancies noticed during the biennial period 2010-12 and 2012-14 are under accounting action. In the absence of compliance of the accounting policy and a complete reconciliation of the results of physical verification with financial records, we are unable to ascertain whether the physical verification has been conducted and to the extent conducted revealed any material discrepancy. (refer Note No.36)	Physical verification is an ongoing process and no material discrepancies were observed between the books of accounts and physical inventory of fixed assets. Discrepancies as and when observed during the migration of fixed assets data in the new SAP system will be adjusted in the books after due process/ procedure. Physical verification of high value assets like Airframes, Engines, APU, Landing gears which constitute 90% of the Gross block are conducted at the end of the year by the Engineering department in consultation with Internal Audit and no major discrepancy has been observed in the verification process done in FY 13-14. In respect of other Fixed Assets which constitutes a small percentage of Gross Block these are reviewed periodically by the regions concerned and necessary corrective action taken after following a due process.
	(c) In our opinion and according to the information and explanations given to us, the Company has not disposed off substantial part of Fixed Assets during the year affecting the going concern assumption.	This is a statement of fact. The Company has disposed off three B777-200LR during the year. The company is also in the process of transferring the W.D.V of the ground handling equipment and workshop equipment to the Ground Handling and Engineering subsidiaries respectively. This process will be completed in 2014-15. These disposals/ transfers will not affect in any way the Going concern assumption.
2	(a) *The Company has a procedure of conducting physical verification of Inventory at-least once in a block of two years, on a perpetual basis. However in practice the same has not been followed and only a portion of inventory is being physically verified.*	During the year two firms of external Chartered Accountants were appointed to physically verify the unserviceable inventory and necessary action will be taken by the Management on the findings by the firms after scrutiny by the engineering and MMD departments. In addition, streamlining of the physical verification process would be completed along-with the up-gradation of the RAMCO system.

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	(b) The procedure of physical verification of inventories on a perpetual basis by the Management needs to be in line with the accounting policy declared by the company. The physical verification conducted during the year is minimal and needs to be considerably enlarged. Considering the size of the Company and nature of its business the process of physical verification of inventories needs to be strengthened with regard to the coverage and frequency. The Company has not obtained confirmations / certificates in respect of Inventory lying with outside agencies.	The Audit comments are noted and Management would put in place a perpetual Inventory system by which the actual Inventory is physically verified and compared with the records following the implementation of the recommendations made by consultants M/s KPMG who were appointed specifically for benchmarking the current practices to the best practices prevailing in the industry.
	(c) On the basis of our examination of the Inventory records, in our opinion, the Company is to update and correct the records of air-craft related Inventory in New system in terms of values migrated and source of quantities items and in case of non aircraft stores, these are to be reconciled with the financial records. The centralized records relating to inventory and consumption maintained at stores need to be fully reconciled with the financial records. (Refer Note No. 62) The discrepancies noticed on physical verification of Inventory, as compared to book records are in the process of reconciliation and adjustment subjecting to scrutiny by the concerned Department and thereafter the same are properly dealt with in the Books of Accounts.	The Audit comments are noted
3	(a) The Company has not granted any Loans, Secured or Unsecured to Companies, Firms or other parties covered in the Register maintained under Section 301 of the Companies Act, 1956 (the Act) except interest bearing advances to subsidiary companies which is in the nature of running account and where no terms of repayments have been specified.	This is a statement of fact.
	(b) Consequently, the question of commenting on the rates of interest and the other terms and conditions of the loans granted being prejudicial to the interests of the Company, receipt of regular principal and interest and reasonable steps taken for recovery of principal and interest does not arise except in the case of subsidiary companies, where the company has charged interest on advances with subsidiaries at the rate which is prima facie not prejudicial to the interests of the company, however since there are no repayment terms are specified the schedule of repayment can not be commented upon. Further since the running account is maintained no comments can be offered towards recovery of principal or interest thereon.	This is a statement of fact.

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	(c) The Company has not taken any loans, secured or unsecured from companies, firms or other parties covered in the Register maintained under Section 301 of the Act.	This is a statement of fact.
	(d) Consequently, the question of commenting on the rates of interest and the other terms and conditions of the loans taken being prejudicial to the interests of the Company and payment of regular principal and interest does not arise.	This is a statement of fact.
4	*In our opinion and according to the information and explanations given to us, the internal control system need to be followed as prescribed and be strengthened to be commensurate with the size of the Company and the nature of its business, for the purchases of Inventory, fixed assets and sale of goods and services. The Company is in the process of reconciling sub-ledgers with the general ledger in respect of Inventory, revenue accounts, sundry debtors/creditors, staff advances and certain intermediary accounts, etc. (refer Note No. 29). The management needs to take corrective action on continuing failure to improve the weakness in internal control system.*	The Company is in the continuous process of strengthening its internal controls in order to make it commensurate with the size and the nature of its business. The IT systems are also continuously upgraded in order to synchronize with complexities of the business. With the implementation of SAP ERP and fixed assets module, the Company's assets are recorded on a systematic basis after due authorizations. Since, these are the initial years of SAP accounting, there are bound to be certain reconciliation and migration issues which would be sorted out in the following years. The process of identification of unmatched items and accounts which have been migrated to SAP at block level has been carried out by an independent firm of Chartered Accounts and remedial action wherever required was taken to the extent possible based on their reports.
5	(a) Based on the audit procedures applied by us and according to the information and explanations provided by the management, we are of the opinion that there are no particulars of contracts and arrangements referred to in Section 301 of the Companies Act, 1956 that need to be entered into the Register required to be maintained under that Section.	This is a statement of fact.
	(b) Hence, the question of commenting whether the transactions made in pursuance of such contracts or arrangements, were made at prices which are reasonable having regard to prevailing market prices at the relevant time does not arise.	This is a statement of fact.
6	In our opinion and according to the information and explanations given to us, the Company has not accepted any Deposits from the public and hence the provisions of Section 58A, 58AA or any other provisions of the Companies Act, 1956 read with the Rules framed there under are not applicable.	This is a statement of fact.
7	*In our opinion, the internal audit function has to be made commensurate with the size of the Company and nature of its business. The Internal Audit coverage during the year was minimal. Internal Audit function needs to be strengthened for timely performance, reporting, compliance, extending the scope to the major online*	Internal Audit department draws a comprehensive minimum audit programme covering all the activities and the extent of their verification includes in India and abroad. The scope of internal audit has been adequately defined in the MAP and pursued by all internal audit units in various units / registered office

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	Stations & regional headquarters, registered office and Central Accounts Office, emphasizing on critical areas and taking timely monitoring action, so as to ensure effective internal controls. The closing balances as appearing in the books are required to be reviewed through internal audit.	/Headquarters. The scope of internal audit has been extended during the year to cover wide body operation apart from enhancing internal audit for narrow body operation. Internal audit is also being strengthened by outsourcing certain key activities in order to make it commensurate with the size and nature of business. The company also proposes external Internal Auditors in financial year 2014-15 in order to outsource certain critical areas of activity and thereby strengthen Internal controls. Internal Audit reports are also placed before the Audit committee and the Management for necessary corrective action.
8	As per the information and explanations given to us, the maintenance of Cost Records has not been prescribed by the Central Government under Section 209(1)(d) of the Companies Act, 1956.	This is a statement of fact.
9	*(a) According to the information and explanations given to us and on the basis of our examination of the Books of Account, during the year the Company has been generally regular in depositing undisputed Statutory Dues, including Provident Fund, Employees' State Insurance, Income Tax, Sales Tax, Wealth Tax, Customs Duty, Cess and other statutory dues applicable to it with the appropriate authorities except as stated below:*	
	• *In respect of foreign stations not visited by us, since the records are kept at the stations, we are unable to comment whether the dues are timely deposited. In case of foreign stations visited by us, the accounts of statutory dues are under reconciliation.*	In respect of all foreign stations the Statutory dues are generally remitted periodically and reconciled in the region/Station.
	• *The Provident Fund dues pertaining to the employees of the contractors / sub-contractors aggregating Rs.38.14 million are kept in a separate bank account in the absence of their registration numbers.*	This is a statement of fact.
	• *The Company is generally regular in depositing Tax Deducted at Source except in case of TDS on delayed payment charges to oil companies which has not been deducted. (refer Note No. 55(d) However, at certain locations, the Company has not reconciled Tax deducted at Source and payable as at year end. The Company has not deducted tax on certain provisions made at the year end.*	This is a statement of fact.
	• *The Company is in the process of reconciliation of Service Tax recoverable and Service Tax payable.*	This is a statement of fact.
	• *The Service Tax including Input credit to be availed and TDS, EPF, ESIS, Profession tax and airport tax accounts are being reconciled. There have been certain delays in depositing of statutory dues at different locations. (refer Note No. 55 & 56)*	This is a statement of fact. Due to the liquidity position faced by the Company, there have been delays in the payment of certain statutory dues. However, the same has been paid subsequently.

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- *As on 31st March, 2014, there are undisputed service tax dues (to the extent identified) amounting to Rs. 1,548.4 million and income tax dues of Rs. 139.2 million outstanding for more than six months.*

As stated above, in the absence of reconciliation, we are unable to determine whether there are any other undisputed dues payable in respect of above as at 31st March, 2014 for a period of more than six months from the date they became payable. (refer Note No. 55 & 56)</td><td>This is a statement of fact.</td></tr>
<tr><td></td><td>

(b) According to the information and explanations given to us, there are no dues outstanding of Sales Tax, Income Tax, Customs Duty, Wealth Tax, Service Tax, Excise Duty or cess on account of any dispute other than mentioned below:

Name of Statute	Amount (Rs. in Million)	Nature and Forum where dispute is pending
Income Tax Act, 1961	885.8	Demand Notices received by the Company which are under Appeal.
Customs Duty and Service Tax	4,554.8	Customs Duty and Service Tax demanded by the Tax Authorities
Municipal Taxes / House Tax	147.9	Property Taxes / House Tax demanded by Municipal Authorities

</td><td>This is a statement of fact.</td></tr>
<tr><td>10</td><td>*The accumulated losses are more than the net worth of the Company and Cash Losses have been incurred in the current and previous financial years. However, the accounts of the Company have been prepared on going concern basis based on the assumption that the company is going to turn around and have improved financial performance in future. (refer Note No. 86).*</td><td>This is a statement of fact.</td></tr>
<tr><td>11</td><td>According to the information and explanations given to us and based on the documents and records produced to us, the Company has not defaulted in repayment of dues to banks and financial institutions. *However as on the date of the Balance Sheet, there were overdue interest on loans Rs. 356.4 million outstanding for payment. It was also observed that there were delays in repayment of interest and principal during the year.*</td><td>Due to the liquidity position faced by the company, there have been delays in the payment of Interest. However, the same has been paid subsequently. Certain banks have levied penalties for such delayed payments which has been taken up with the respective banks for waiver..</td></tr>
</table>

Sr. No.	Audit Observations	Management Comments
12	According to the information and explanations given to us and based on the documents and records produced to us, the Company has not granted loans and advances on the basis of security by way of pledge of shares, debentures and other securities.	This is a statement of fact.
13	In our opinion and according to the information and explanations given to us, the nature of activities of the Company does not attract any special statute applicable to chit fund and nidhi/mutual benefit fund/ societies.	This is a statement of fact.
14	The Company does not deal in shares, securities, debentures and other investments.	This is a statement of fact.
15	According to the information and explanations given to us, the Company has given guarantees for loans taken by its subsidiaries from banks. The terms of such guarantee are not prima facie prejudicial to the interests of the Company.	This is a statement of fact.
16	According to the information and explanations given to us, the Term Loans were applied for the purpose for which the loans were obtained.	This is a statement of fact.
17	According to the information and explanations given to us and on an overall review of the Balance Sheet and Cash Flow of the Company, we report that out of short term loan initially taken for working capital, amounting to Rs. 2,456.4 million outstanding as at 31st March, 2014 have been used for long term purposes.	These loans were taken for the purpose of payment to aircraft manufacturers to confirm the delivery slots of aircraft in the future.
18	The Company has not made any preferential allotment of shares to parties or Companies covered in the Register maintained under Section 301 of the Companies Act, 1956.	This is a statement of fact.
19	As per the information and explanations furnished to us no Debentures were issued during the year.	This is a statement of fact.
20	The Company has not raised any money through public issue during the year.	This is a statement of fact.
21	During the course of our examination of the books and records of the Company during the year, carried out in accordance with the generally accepted auditing practices in India except *as stated in Note No. 58 and 59 regarding misappropriation of funds at Kolkata and differences in cash at Sydney station and recoverable dues from agents defaulted during the year Rs.373.8 million where the precise nature of default is yet to be established,* we have neither come across any instances of material fraud being noticed or reported on or by the company, nor we have been informed of any such instances by the management.	This is a statement of fact.