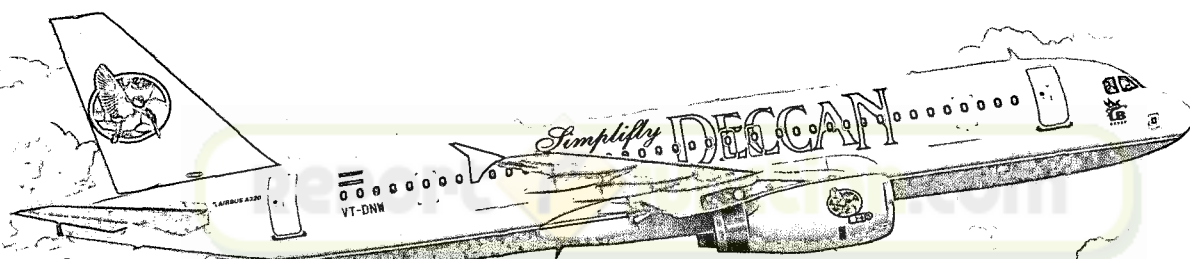


United we conquer the skies



A new era in aviation dawns



ANNUAL REPORT 2006 - 2007



BOARD OF DIRECTORS

: Lt. Gen. (Retd.) N. S. Narahari, *Chairman*
 Dr. Vijay Mallya, *Vice - Chairman (from 31st October, 2007)*
 S.N. Ladhani *Vice - Chairman (upto 31st October, 2007)*
 Capt. G.R. Gopinath, *Managing Director*
 Capt. K. J. Samuel, *Executive Director*
 Col. (Retd.) Jayanth K. Poovaiah, *Executive Director*
 Sudhir Choudhrie *(upto 28th June, 2007)*
 M.G. Mohan Kumar, *Director - Finance (upto 31st January, 2007)*
 Vivek Kalra *(upto 2nd July, 2007)*
 A.K. Ravi Nedungadi *(from 31st October, 2007)*
 Hitesh Harshad Patel *(from 31st October, 2007)*
 Vijay Amritraj
 Prof. P.N. Thirunarayana
 Anil Kumar Ganguly
 Bala Deshpande

COMPANY SECRETARY

: N. Srivatsa

BANKERS

: Bank of India
 Citi Bank
 Deutsche Bank
 Development Credit Bank
 ICICI Bank
 Indus Ind Bank
 Punjab National Bank
 State Bank of India
 State Bank of Indore
 State Bank of Travancore
 United Bank of India

AUDITORS

: M/s. B.K. Ramadhyani & Co.
Chartered Accountants
 4B, 4th Floor, 68, Chitrapur Bhavan
 8th Main, 15th Cross
 Malleshwaram,
 Bangalore - 560 055.

**REGISTERED OFFICE &
AIR DECCAN CORPORATE OFFICE**

: 35/2, Cunningham Road
 Bangalore - 560 052.

CHARTER SERVICE

: Jakkur Aerodrome
 Bellary Road
 Bangalore - 560 064.

To The Members,

Your Directors present the 12th Annual Report along with the Audited Accounts of Deccan Aviation Limited ("the Company") for the year ended June 30 2007.

Operations

The Company's operations during the year ended June 30, 2007 have resulted in: -

(Rs in millions)

	Year ended 30 th June 2007	15 months ended 30 th June 2006
Gross Income	21423	13518
Earnings before financial charges, lease rentals, depreciation & amortisation and taxes (EBITDAR)	932	563
Depreciation & Amortisation	439	323
Lease rentals	4031	2162
Financial charges	624	320
Loss before taxes	4162	3368
Provision for taxes (incl. FBT)	34	37
Net loss after tax	4196	3405

Air Deccan (Scheduled Airline Operations)

The Company's Scheduled Airlines business continued to grow in all areas of its operations and your Company is a significant player in the Indian domestic aviation sector. It has also achieved the distinction of becoming the carrier with the widest reach covering more destinations than any other domestic carrier. Air Deccan has succeeded in changing the face of the Aviation sector in India. It has succeeded in enlarging the market for air travel and has turned air travel into a mass commodity.

Since inception, Air Deccan has :

- carried approximately 12.5 million passengers, till June 30, 2007 (up from 5.6 million as compared to June 30, 2006);
- expanded its fleet to 41 aircrafts as on June 30, 2007 (34 aircrafts as on June 30, 2006);
- grown its schedule to 270 flights daily, as on June 30, 2007 (239 flights as on June 30, 2006);
- increased its route network to 63 airports as on June 30, 2007 (55 airports as on June 30, 2006);
- hired and mobilized a workforce of almost 3100 people as on June 30, 2007 (2,600 as on June 30, 2006).

Air Deccan, thus, continues to be one of the fastest-growing scheduled commercial passenger airlines today.

The Company inducted 9 aircrafts (5 Airbus A320s and 4 ATRs) and returned 2 ATRs during the period under review. The domestic aviation industry continued to witness capacity expansion by all airline operators and the competition continues to be stiff among all operators putting pressure on yields. Added to this, the continued increase in fuel price during the period (more than 9% on an average), increases in remuneration to skilled personnel due to market factors, shortage of locally available skilled personnel leading to recruitment of expatriate personnel, all combined to cause an operating loss during the period under review. Individual items of the financial statements are more fully discussed in the section titled "Management Discussion and Analysis".

Air Deccan has created yet another first by partnering with India Post for sale of tickets at post offices. This unique tie-up is one amongst the various innovative distribution channels that the airline operates for dispensing tickets. Air Deccan was the first airline to introduce ticketing at petrol pumps, retail outlets, online kiosks, web outlets making air tickets easily accessible round the clock. India Post, the country's 150 year old postal system with more than 1.5 lakhs post offices and over 6 lakhs employees is the largest postal network in the world. It has access to the entire population of the country spread over varied terrain as the arid deserts of Rajasthan to the icy reaches of Ladakh. India Post has 5000 internet enabled post offices in India and initially Air Deccan tickets will be available across 500 internet enabled post offices across the state of Karnataka.

Air Deccan will continue to aggressively grow its operations in the coming months and years with aircraft induction plans to keep pace with the growing market requirements and aims to become the largest people carrier in India.

The aviation business is highly capital intensive and requires constant injection of capital in order to sustain the growth. Additionally, market development, brand building and awareness require significant investment and expenditure on an on going basis. In our quest for fund raising, several investment proposals were evaluated to find a suitable investor who would add value to the Company's business. An arrangement was entered into with the UB Group wherein a preferential allotment of 26% of the equity shares of the Company would be made at a value of Rs. 155 per share helping the Company raise Rs. 545.94 crores. Consequently, the allotment of shares were completed on 30 June, 2007 and an agreement was entered into between the Company's Promoters, the Company, United Breweries (Holdings) Limited and Kingfisher Radio Limited (the acquirer of 26% shares). This agreement extends rights relating to appointment of directors by both the UB Group and the Promoters, the constitution of the Board and Board meetings, transfer and sale of shares by the investors and promoters etc.

Report of the Directors (Contd.)



This investment by the UB Group will ensure that the Company's robust low cost business model is nurtured and this association provides substantial value addition to your Company. The Company's focus is to actively pursue opportunities for synergies between the UB Group owned Kingfisher Airlines and Air Deccan which will ensure implementation of best practices, better cost management by leveraging the combined strength of both groups, reduce capital costs and provide an overall added value proposition to its passengers and partners by leveraging on the combined strengths, in terms of network reach, connectivity, frequencies, infrastructure, of both groups. The combined group of Kingfisher-Air Deccan will be in a better position to offer air travel options across a wider network and to all segments of the traveling population.

Air Deccan and Kingfisher Airlines will work closely with each other to exploit opportunities for synergies that exist in the areas of operations and maintenance, procurement, ground handling, increased connectivity, feeder services, distribution, penetration etc., thereby reducing costs, increased efficiencies and improved profitability of both the airlines. Further, sharing of knowledge and best practices between both the airlines will ensure a more efficient operation and better value proposition to passengers, employees and all other stakeholders.

As a major step towards exploiting the synergies between the two groups, Air Deccan is undergoing a major re-branding exercise and will, henceforth, be known as "Deccan". An all new livery and colours and a complete makeover of the frontline staff and executives will provide a whole new experience to both the existing traveler and a new traveler. This effort, we believe, will serve to position the Airline and your Company on a better footing to withstand and beat competition in its effort to move quickly towards profitability over the next several months. Several initiatives and projects are in various stages of implementation encompassing all areas of the Company's operations, sales, marketing and distribution, front line and support services and the completion of these are vital to achieve a profitable growth in the future.

Charter Services

The Helicopter Charter service of the Company logged another year of impressive growth. One more fixed wing aircraft was added to the fleet during the period under review. The existing long term contracts continue to ensure steady revenue. Your Company continues to increase its presence in off shore flying for oil sector and has again succeeded in bagging a prestigious contract in this segment. The Company's operations of ferrying pilgrims at Sri Mata Vaishnodevi Temple in Jammu based on an arrangement with the Temple Trust, which commenced 4 years back, continues to yield significant revenue for the Company. The technical services offered by the Company have grown in revenue and

customer base and now offers third party maintenance and operational services to large Indian corporates. During the year, steps have been taken towards modernization of the battery charging services, and establishment of a calibration facility for special tools. An avionics maintenance facility is also being established to offer maintenance of helicopter radio equipment. During the year, there has been an increased focus in trading of Bell helicopter spare parts.

Dividend

In view of operating losses incurred during the year, your Directors do not recommend payment of dividends.

Capital

During the year under review, the Company's Authorised Share Capital was increased from Rs. 125 crores to Rs.150 crores. Consequent changes have been made to the Memorandum and Articles of Association.

During the year under review, the Company allotted shares on preferential basis as follows:

1. 1,963,640 equity shares of Rs 10/- each at a premium of Rs 140.00 per share to Investec Bank (UK) Ltd.
2. 35,222,231 equity shares of Rs 10/- each at a premium of Rs 145.00 per share to Kingfisher Radio Ltd.

The said preferential allotments resulted in a funds infusion of Rs. 575.40 crores.

Kingfisher Radio Limited (KRL) who were allotted equity shares equivalent to 26% of voting capital as above on preferential basis, has completed the Open Offer to the shareholders of the Company, to acquire 27,126,360 fully paid equity shares representing 20% of the post acquisition of the Company at a price of Rs155/-, pursuant to Regulation 10 and 12 of the SEBI (Substantial Acquisition of Shares and Takeovers) Regulations 1997 along with United Breweries (Holdings) Limited and UB Overseas Limited being persons acting in concert. This has resulted in an increase in the voting capital held by Kingfisher Radio Ltd and Associated companies to 46%.

Outlook

The recent trend of consolidation within the domestic aviation industry now means that there are three major market share leaders, viz., Air India-Indian, Jet Airways-Jetlite and Deccan-Kingfisher which control more than 85% of the market. It is expected that this may result in a reduction in cut-throat pricing leading to improved yields and, consequently, a road to profitability. The aviation industry in India lost, on a combined basis, Rs. 2000 crores during the year 2006-07 and this recent consolidation would serve to lower these levels of losses.

The future growth of air travel within, to and from India will continue to depend on the growth of the Indian economy. The continuance of positive economic factors and the strong performance of the services and retail sectors should lead to sustained growth in passenger traffic. Increasing disposable incomes will continue to stimulate the leisure market within India. The Company is refocusing on both business and leisure traffic.

The Company has drawn up a growth strategy for the Charter service operations and is pursuing opportunities to expand its business in all segments, especially off shore operations for the Oil sector. New segments continue to be tapped by the Company and one such segment is Medical evacuation in case of medical emergencies for which the Company has entered into a Memorandum of Understanding with Apollo Hospitals Group for the provision of emergency medical evacuations.

A more detailed discussion is contained in the section titled "Management Discussion and Analysis"

Auditors' Report

As regards the observations in paras 4 and 5 of the Auditors' Report, the relevant Notes to Accounts are self-explanatory. In para 6 of the Auditors' Report, the Statutory Auditors have qualified their report by remarking that the receipt of subsidy from aircraft manufacturers should be recognised as income on an systematic basis over the period necessary to match them with related costs which they are intended to compensate though the accounting treatment does not appear to be covered by the Accounting Standard (AS)-19 on "Leases" issued by the Institute of Chartered Accountants of India.

In the opinion of the Directors:

- (1) The lessor of the Aircraft is a person other than the Aircraft manufacturer and the lease contract is independent of the contract with Aircraft manufacturer.
- (2) The termination, if any, of the lease contract does not in any event breach the conditions for the grant of subsidy by the Aircraft manufacturer.
- (3) The subsidy value, referred to in Para 6 of the Audit Report have been received by the Company during the 15 months period ended 30th June 2006. As per Section 28 (iv) of the Income Tax Act 1961, and precedents available under Income Tax laws, including pronouncements of the Apex Court, the revenue arising out of support packages will be treated as income for taxation purposes and therefore, it would not be prudent for the Company to treat the said revenues differently in the books of accounts and for taxation purposes.

- (4) In the event of non compliance of the contract with the Aircraft manufacturer, the resultant possibility of recovery of subsidy granted by the Aircraft manufacturer has been disclosed as contingent liability and this accounting treatment adopted by the Company is also based on the well established principle of differentiation of revenue receipt and capital receipt.

In view of the above, in the opinion of the Company, the accounting treatment of the support package, received from the Aircraft manufacturer, as Income in the year of accrual and receipt is in order in view of the above.

As regards the observations in the Annexure to the Auditors' Report, the Company has taken/is taking necessary steps to ensure improvement in certain procedures and also for compliance with the relevant laws.

Deccan Aviation (Lanka)

Due to the prevalent political conditions in Sri Lanka, the operations of the Company did not witness any significant improvement or growth during the year. However, the situation is reported to be improving and the Company has commenced cargo and passenger charter operations on fixed wing aircrafts resulting in improvement in revenue and earnings. It is expected that the political situation in Sri Lanka is likely to improve leading the way to a significant growth in the tourism traffic which throws open greater opportunities for the Company's charter operations.

Particulars of Employees under Section 217 (2A) of the Companies Act, 1956

Information as per Section 217(2A) of the Companies Act, 1956 read with the Companies (Particulars of Employees) Rules, 1975, as amended from time to time forms part of this Report. However, as per provisions of Section 219(1)(b)(iv) of the Companies Act, 1956, the Report and Accounts are being sent to all the Members excluding the Statement containing the particulars of Employees to be provided under Section 217(2A) of the Act. Any Member interested in obtaining such particulars may inspect the same at the Registered Office of the Company between 11:00 a.m. to 1:00 p.m. on all working days till the date of the 12th Annual General Meeting.

Employee Stock Option Plan (ESOP)

During the year, the Company allotted 102,240 equity shares of Rs. 10/- each against the exercise of equivalent vested options. The said shares have been listed on the Bombay Stock Exchange (BSE) and National Stock Exchange of India Ltd (NSE). Considering the options forfeited and exercised, the outstanding stock options granted under ESOP 2005 as on June 30, 2007 was 1681653.

Report of the Directors (Contd.)



During the year 2,000,200 options have been granted afresh under ESOP 2006 which will vest from April 2008 over a period of 4 anniversaries thereof.

Disclosures as required by Clause 12 of the SEBI (Employee Stock Option Scheme and Employee Stock Purchase Scheme), Guidelines 1999 are annexed to this Report.

Corporate Governance

A separate section on Corporate Governance, forming part of the Directors' Report and a certificate from a practicing Company Secretary confirming compliance of Corporate Governance norms as stipulated in Clause 49 of the Listing Agreement with the Stock Exchanges, is attached herewith and forms a part of this Annual Report.

Directors

Lt. Gen. N S Narahari, Mr. S N Ladhani and Ms. Bala Deshpande retire by rotation and, being eligible, offer themselves for reappointment.

During the year under report, Mr. M G Mohan Kumar, Mr. Sudhir Choudhrie and Mr. Vivek Kalra resigned from the Board w.e.f. 31st January, 2007, 28th June, 2007 and 2nd July, 2007 respectively. Your directors place on record their appreciation of the valuable contribution made by Mr. Mohan Kumar, Mr. Sudhir Choudhrie and Mr. Vivek Kalra during their tenure on the Board.

Dr. Vijay Mallya, Mr. A. K. Ravi Nedungadi and Mr. Hitesh Harshad Patel have been co-opted as additional directors, pursuant to the Subscription and Shareholders Agreement amongst the Promoter Shareholders of Deccan Aviation Limited, United Breweries (Holdings) Limited, Kingfisher Radio Limited and the Company to hold office upto the ensuing Annual General Meeting of the Company.

Auditors

M/s. B K Ramadhyani & Co., Chartered Accountants, the retiring auditors of the Company, being eligible, offer themselves for re-appointment to hold office from the conclusion of the forthcoming Annual General Meeting of the Company, till the date of next Annual General Meeting. Confirmation has been received from M/s. B K Ramadhyani & Co. that their appointment, if confirmed by the Company in General Meeting, would be within the limits specified in Section 224(1B) of the Companies Act, 1956.

Conservation of Energy, Research and Development, Technology Absorption, Foreign Exchange Earnings and Outgo

The particulars as prescribed under section 217(1)(e) of the Companies Act, 1956 and the rules framed there under are not applicable to the Company.

Foreign Exchange Earnings and Outgo

The relevant information appears in the Notes on Accounts.

Directors' Responsibility Statement

In terms of the provisions of Section 217(2AA) of the Companies Act, 1956, the Directors of your Company hereby confirm that:

- In the preparation of the Accounts for the 12 month year ended June 30, 2007 the applicable Accounting Standards have been followed along with proper explanation relating to material departures;
- The Directors have selected such accounting policies and applied them consistently and made judgments and estimates that are reasonable and prudent so as to give a true and fair view of the state of affairs of the Company at the end of the financial year and of the Profit and Loss of the Company for the year;
- The Directors have taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of this Act for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities;
- The Directors have prepared the Annual Accounts on a going concern basis.

Appreciation/Acknowledgement

The Directors wish to place on record their sincere appreciation of the unstinted support, co-operation and assistance received from various departments and agencies of the Central Government, the various State Governments where the Company operates and Airport Authority of India. The Directors also wish to place on record their appreciation of the continued co-operation and support received from the Lessors, Technical Collaborators, Financial Institutions, Banks, Suppliers, Business associates, and the dedicated and committed services rendered by all the executives and employees of the Company for the efficient and smooth functioning of the Company's operations.

For and on Behalf of the Board of Directors

Bangalore
31st October, 2007

Lt. Gen. (Retd.) N S Narahari
Chairman

STOCK OPTIONS GRANTED DURING THE YEAR UNDER THE ESOP 2005 & 2006

Disclosures as required by Clause 12 of the SEBI (Employee Stock Option Scheme and Employee Stock Purchase Scheme), Guidelines 1999

Sl. No	Particulars	(ESOP 2006)	(ESOP 2005)
(a)	Options granted	2,000,200	3,621,900
(b)	The Pricing formula	Rs 65/-	Rs 65/-
(c)	Options vested	0	647,340
(d)	Options exercised	0	102,240
(e)	The total number of shares arising as a result of exercise of options	Nil	102,240
(f)	Options lapsed	5,000	1,998,150
(g)	Variation of terms of options	Nil	Nil
(h)	Money realized by exercise of options	Nil	6,645,600
(i)	Total no. of options in force	1,995,200	1,521,510
(j)	Employee wise details of options granted:		
(i)	Senior managerial personnel		
	Ajay Bhatkal	50,000	-
	Anand Ramachandran	35,000	-
	Arun Kumar	30,000	-
	Arvind Saksena	-	45,000
	Balakrishna Shabaraya K.	-	10,000
	Devesh Desai	50,000	50,000
	Jayanth K Poovaiah	100,000	154,000
	Samyukth Sridharan	200,000	-
	Preetham Phillip	-	136,000
	Ramki Sundaram	680,000	-
	N Srivatsa	30,000	-
	Navodit Mehra	25,000	23,000
(ii)	Any other employee who received a grant in any one year of option amounting to 5% or more of option granted during the year.	Nil	Nil
(iii)	Identified employees who were granted options, during any one year, equal to or exceeding 1% of the issued capital (excluding outstanding warrants and conversions) of the Company at the time of the grant	Nil	Nil
(k)	Diluted Earnings Per Share (EPS) pursuant to issue of shares on exercise of options calculated in accordance with Accounting Standard AS-20	Rs (42.24)	
(l)	Method of accounting followed for value of charge on stock options (as per the Guidance Note on Stock Based compensation by ICAI)	Intrinsic Value	Intrinsic Value
(m)	Difference of amount of ESOP charge calculated as per the Intrinsic Value Method and the fair value of the options (Black Scholes Method)	Rs -33,733,678	
(n)	Proforma Earning Per Share if the Charge have been accounted in accordance with fair value method (Black Scholes Method)	Rs (41.90)	Rs (68.62)
(o)	(i) Weighted-averaged exercise prices	Rs 65.00	Rs 65.00
	and		
	(ii) weighted-average fair values of options	Rs 72.85	Rs 63.00
	for options whose exercise price either equals or exceeds or is less than the market price of the stock		
(p)	A description of the method and significant assumptions used during the year to estimate the fair values of options :		
	(i) risk-free interest rate (%)	8.13	6.76
	(ii) expected life (years)	5.21	5.07
	(iii) expected volatility (%)	23.95	-
	(iv) expected dividends (%)	Nil	-
	(v) the price underlying share in market at the time of option grant	Rs 115.00	Rs 128.00 **

Note : 3621900 options have been granted under the ESOP 2005 which scheme has since been discontinued and effective from 1st January 2006, the Company has adopted ESOP 2006 under which 2000200 options have been granted during the year ended 30th June, 2007.

** - Based on valuation report since the Company's shares were not listed at the time of grant

Management Discussion and Analysis

1. Industry structure and developments

The future growth of air travel within, to and from India will continue to depend on the growth of the Indian economy. The continuance of positive economic factors and the strong performance of the services and retail sectors should lead to sustained growth in passenger traffic. Increasing disposable incomes will continue to stimulate the leisure market within India.

The unprecedented growth in passenger traffic in India has attracted several airlines already to set up operations resulting in a highly competitive environment. A major development within the industry has been the recent trend of consolidation. This has resulted in three major market share leaders, viz., Air India-Indian, Jet Airways-Jetlite and Deccan-Kingfisher which control more than 85% of the market. It is expected that this may result in a reduction in cut-throat pricing leading to improved yields and, consequently, a road to profitability. The aviation industry in India lost, on a combined basis, Rs 2000 crores during the year 2006-07 and this recent consolidation would serve to lower these levels of losses.

The Charter business is also now evolving and the industry is now witnessing the emergence of charter companies for whom this business is not for captive use but is the business itself. Competition in the charter business is increasing with more private dedicated charter services being set up.

The Government's policy on civil aviation industry is continuously evolving and has been largely positive. The Government has announced a policy for construction and development of new airports in several cities and towns to improve connectivity.

However, in the midst of all the positive developments, a major negative move was the withdrawal of the Income Tax exemption u/s 10(15A) of the Income Tax Act, 1961 relating to withholding tax on aircraft lease rentals which is likely to result in additional costs to the operators.

Further, the levy of import duties in respect of import of certain aircrafts used for charter services will also increase the acquisition cost for the charter service operators.

2. Opportunities and Threats

Under-penetrated markets and high economic growth

Despite recent growth in air passenger traffic, India continues to have relatively high under-penetration of

air services. There is a high level of potential demand in Tier-II and Tier-III cities which is continuing to witness a strong economic performance and the Company's ATR operations are specifically geared to tap this latent market over a period of time.

Increasing consumerism and affordability

The aviation market has witnessed a shift from train and road travel to air travel due to increase in disposable income and to satisfy growing aspirations. The passenger market thus continues to expand providing enough business to fill our increasing capacity deployment.

Infrastructure constraints

With the continued capacity expansion by all airlines, there are now huge pressures and demands on the limited enabling infrastructure, such as airport facilities, parking bays, air traffic control facilities and takeoff and landing slots with all operators competing for the limited facilities available. The growth in infrastructure has, unfortunately, not kept pace with the growth of the industry which has led to air traffic congestion leading to increased costs and flight delays.

Shortage of skilled manpower

There generally exists a shortage of skilled and experienced pilots and engineers due to the general worldwide growth of the aviation industry. We are attempting to tackle this shortage by setting up our own training centres so as to achieve self-sufficiency in this area.

3. Segment-wise or product-wise performance

The Company operates in a single business segment, i.e. of providing scheduled and unscheduled air transportation services. Further, the Company currently operates only in India and does not have operations outside India. Accordingly, no separate segment disclosures for primary business segment and geographical disclosures are required to be given.

4. Outlook

The future growth of air travel within, to and from India will continue to depend on the growth of the Indian economy. The continuance of positive economic factors and the strong performance of the services and retail sectors should lead to sustained growth in passenger traffic. Increasing disposable incomes will continue to stimulate the leisure market within India.

The airline industry in India has been going through an intensely competitive phase. However, the recent trend of consolidation in the industry should help move the industry towards a more positive future.

Management Discussion and Analysis (Contd.)

The aviation business, being highly capital intensive, requires constant injection of capital in order to sustain the growth. We, recently, entered into an arrangement with the UB Group wherein a preferential allotment of 26% of the equity shares of the Company would be made at a value of Rs. 155 per share helping the Company raise Rs. 545.94 crores. This investment by the UB Group will ensure that the Company's robust low cost business model prospers along with the synergy that it will have with Kingfisher Airlines (UB Group Company). The two airlines, viz., Deccan and Kingfisher will work closely with each other to exploit opportunities for synergies that exist in the areas of operations and maintenance, procurement, ground handling, increased connectivity, feeder services, distribution penetration etc, thereby resulting in decreased costs, increased efficiencies and improved profitability of both the airlines. Further, sharing of knowledge and best practices between both the airlines will ensure a more efficient operation and better value proposition to passengers, employees and all other stakeholders.

Several initiatives and projects are in various stages of implementation encompassing all areas of the Company's operations, sales, marketing and distribution, front line and support services and the completion of these are vital to achieve a profitable growth in the future.

Cost management and control is an ongoing initiative, being an important part of the culture of a low-cost airline.

Our Charter service operations continues to focus on customers, relatively large fleet, innovative spirit and superior maintenance skills.

The Company is in the process of executing the growth strategy for the Charter service operations and is pursuing opportunities to expand its business in all segments, especially off shore operations for the oil sector.

5. Risks and Concerns

A substantial portion of our total expenditure comprises of fuel expenditure. Increases in the price of Aviation Turbine Fuel (ATF), which is based primarily on the international price of crude oil, continue unabated. Huge differentials exist between the ATF price charged for domestic operations in India and the price of ATF internationally. During the current year, there was no move to bring about some semblance of parity between the domestic and international prices of ATF which is the single biggest cost to airlines. The market still remains controlled and restricted to a large extent to state-run oil companies where pricing is non-transparent and a

number of components built into the price which is not disclosed to the customer. The price is regulated and in as much that all suppliers charge the same price. Reduction in levies to a more realistic percentage will automatically serve to reduce costs, lower fares, expand the market and lead to a profitable growth of the airline industry. The prima facie reduction will be readily made up by the increasing volumes of consumption and, in the end, the State will not lose out in absolute terms. This concept has been tried and proven in the area of direct taxes in India and there is no reason to believe this will be different in this case. However, discussions are ongoing with the Ministry of Civil Aviation for suitable reduction in the levy of taxes and duties on the ATF.

Inadequate improvement and expansion of air transport infrastructure and facilities continue to adversely affect the airline industry and our business. The Government of India, however, in conjunction with various state governments is in the process of modernising old and constructing new airports, including in Mumbai, Delhi, Bangalore and Hyderabad.

Another factor currently facing the industry is the increasing number of bird hits which is affecting both us and other airlines. All stakeholders are currently working actively to curb this menace which is a major safety issue. It is expected that these measures will yield the desired results.

6. Internal control systems and their adequacy

- The Company has a proper and adequate system of internal controls commensurate with its size and nature of operations to provide reasonable assurance that all assets are safeguarded, transactions are authorised, recorded and reported properly and applicable statutes, codes of conduct and corporate policies are duly complied with.
- The Internal audit department reviews the adequacy and efficacy of the key internal controls. The scope of the audit activity is guided by the annual audit plan, which is approved by the Audit Committee of the Board.
- The Company's Audit Committee comprises five Non-executive Directors: A K Ganguly, Chairman, P N Thirunarayana, S N Ladhani, Bala Deshpande and Lt Gen N S Narahari. One of the objectives of the Audit Committee is to review the reports submitted by the Internal Audit Department and to monitor follow-up and corrective action by Management.