1. Industry structure and development

a. After a period of recovery for the global economy in 2011, recently signs of stress have appeared with the emergence of financial crises in Europe and sharp increases in prices of commodities. This has reduced the outlook for global economic growth to about 2% in 2012. When compared to the recent past, India's economic growth has slowed with the real Gross Domestic Product (GDP) growth for 2011-12 at 6.5% and a target of 6.5% also indicated for 2012-13.

b. The global airline industry in 2011-12 recorded moderate growth and profitability of all major airlines across the world was significantly reduced due to sustained high level of fuel prices.

c. The International Air Transport Association (IATA), that represents 240 airlines comprising about 84% of total air traffic, has forecast global airline traffic growth at nearly 4%, primarily driven by above average demand growth in Middle-East, Latin America and Asia Pacific. Also, domestic passenger traffic trends observed in 2012 vs. 2011 in India is a cause for concern.

d. Jet fuel continues to remain a significant element of cost with IATA forecasts pegging this cost element at 36% of operating costs in 2012, up from 30% in 2011 with an average crude oil price (Brent) outlook of US$ 135 per barrel.

2. Industry Operating Environment

a. As per IATA forecast for March 2012, the global airline industry is expected to post a net loss of US$ 5.3 billion in 2012 with an estimated average crude oil price of US$ 135 per barrel. This is in stark contrast to IATA's original outlook for 2012 at the beginning of the year which had forecast a net profit for the industry at US$ 3 billion.

b. The Indian airline industry which is exposed to one of the toughest operating environments globally is also expected to struggle with such profitability pressures, more so with one of the highest prices for Jet Fuel across the world given the tax structure, recent depreciation of the rupee, and the high cost of borrowing.

c. For the year under review, the increase in passenger traffic was relatively lower than that achieved in previous years, estimated at 13% compared to 20% in the previous year ended March 31, 2011. However, capacity in the industry grew by 17% for the same period and this consequently led to a marginal decrease in the industry load factor by approximately 1 percentage point compared to the previous year.

d. Yields have been under pressure through large periods of the year. This was a result of irrational pricing policies adopted by some competitors and above average addition of capacity by low-cost carriers. Coupled with this situation, the rise in fuel prices through the year has significantly constrained the profitability of the industry.

3. Internal control systems and their adequacy

a. Your 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 authorized, recorded and reported properly and applicable statutes, codes of conduct and corporate policies are duly complied with.

b. The Internal Audit department reviews the adequacy and efficacy of the key internal controls, guided by the Audit Committee of the Board.

c. One of the objectives of the Company's Audit Committee is to review the reports submitted by the Internal Audit department and to monitor follow-up and corrective actions by Management.

d. Your Company has a compliance procedure to ensure that all laws, rules and regulations applicable to it are complied with.

e. The Company Secretary is the designated Compliance Officer to ensure compliance with Securities and Exchange Board of India regulations and with the Listing Agreement with The National Stock Exchange of India Limited and Bombay Stock Exchange Limited.

f. Your Company has a process of both external and internal safety audits for each area of operation. Your Company is in full compliance with all laws, rules and regulations relating to airworthiness, air safety and other statutory operational requirements.

g. Your Company, as part of its Risk Management strategy, reviews, on a continuous basis, its strategies, processes, procedures and guidelines to effectively identify and mitigate risks. Further, the Management has developed a procedure to ensure adequate disclosures of key risks and mitigation initiatives to the Audit Committee of the Board.

4. Analysis of operational performance for the period ended March 31, 2012

The current financial period is for the twelve month period from April 1, 2011 to March 31, 2012 (FY12).

Financial Results of Operations:

	FY12 (Rs. million)	FY11 (Rs. million)	(% difference)
Income			
Passenger	49,102	56,210	(13%)
Cargo	4,356	4,519	(4%)
Excess Baggage	327	306	7%
Rebooking charges/ cancellation	1,150	1,299	(11%)
Other Income	3,305	2,622	26%
Total Income	**58,240**	**64,956**	**(10%)**
Expenditure			
Employees' costs	6,695	6,760	1%
Aircraft/ engine lease rentals	8,685	9,840	12%
Aircraft fuel expenses	29,459	22,740	(30%)
Operating and other expenses	20,863	24,371	14%
Depreciation/ Amortisation	3,419	2,410	(42%)
Interest & Finance charges	12,763	13,129	3%
Exceptional Item	10,816	913	(1,086%)
Total expenditure (inc. exceptional item)	**92,700**	**80,163**	**(16%)**

Income

Your Company's total income stood at Rs. 58,240 million during the twelve month period from April 1, 2011 to March 31, 2012.

a. Income from services formed 94% of total income at Rs. 54,935 million. Domestic revenues recorded for the period under review was Rs. 41,126 million as against Rs. 47,731 million in the previous year ended March 31, 2011. Revenue generation has been significantly impacted in Q4, 2011-12 due to operational downsizing and rationalization of capacity forced by tough operating environment.

b. During the twelve month period ended March 31, 2012, your Company's International revenues stood at Rs. 13,809 million as against Rs. 14,602 million in the previous year ended March 31, 2011.

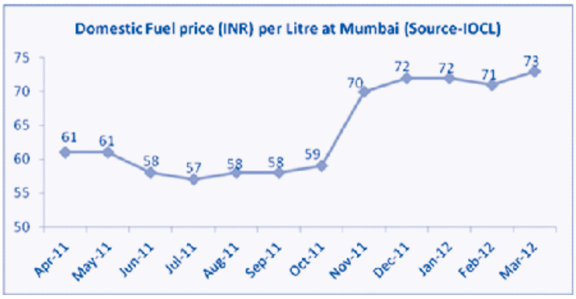
c. Other Operating Income stood at Nil during the twelve month period ended March 31, 2012 as compared to Rs. 1,263 million in the previous year ended March 31, 2011, since the benefit of Duty Free Credit Entitlement Scheme was stopped for the aviation sector during the previous year ended March 31, 2011.

d. Other income stood at Rs. 3,305 million during the twelve month period from April 1, 2011 to March 31, 2012, an increase of 26% when compared to the previous year ended March 31, 2011. Other Income comprised mainly of liabilities no longer applicable and written back of Rs. 1,487 million.

Expenditure

Total expenditure including exceptional items stood at Rs. 92,700 million during the twelve month period from April 1, 2011 to March 31, 2012, an increase of 16% when compared to the previous year ended March 31, 2011.

a. **Aircraft fuel expenses:** Expenditure on fuel stood at Rs. 29,459 million during the twelve month period from April 1, 2011 to March 31, 2012 accounting to 32% of the total costs. Prices have steadily risen through the year and ended 22% higher than prices at beginning of the year. Domestic ATF price movement in INR is given below:



Your Company has attempted to contain overall fuel costs by a combination of route rationalization which saw cut on capacity on unprofitable routes and fuel consumption saving programs.

b. **Aircraft Engine/Lease Rentals:** Aircraft/engine lease rentals stood at Rs. 8,685 million during the twelve month period from April 1, 2011 to March 31, 2012. Your Company operated 67 aircraft (scheduled and non scheduled) up to November 2011, 13 of which were owned through finance leases and 54 are held under operating leases. Since November 2011, till the end of the financial year your Company returned 16 aircraft and the fleet as on March 31, 2012 was 55 aircraft.

c. **Employee Remuneration and Benefits (Personnel Costs):** Employee remuneration and benefits stood at Rs. 6,695 million during the twelve month period from April 1, 2011 to March 31, 2012. Your Company saw a reduction of 1% costs on employee remuneration. The number of employees of your Company for the period ended March 31, 2012 was 5,696 from 7,317 employees in the previous year ended March 31, 2011.

d. **Other Operating Expenses:** Other operating expenses stood at Rs. 20,863 million during the twelve month period from April 1, 2011 to March 31, 2012. The reduction in cost was mainly due to reduction in operations in the second half of the fiscal year.

e. **Interest and Finance Charges:** Interest and Finance Charges amounted to Rs. 12,763 million during the twelve month period from April 1, 2011 to March 31, 2012. Loan funds increased to Rs. 91,336 million as against Rs. 70,571 million. Your Company incurred interests of Rs. 12,052 million on fixed and other loans as against Rs. 11,189 million incurred in FY11. Bank charges and guarantee commission stood at Rs. 711 million for the year under review as compared to Rs. 1,941 million in the previous year ended March 31, 2011.

f. **Depreciation and Amortization:** Depreciation charges were Rs. 3,010 million during the year ended March 31, 2012 as compared to Rs. 2,030 million in the previous year ended March 31, 2011. Amortization charges stood at Rs. 409 million during the year ended March 31, 2012 versus Rs. 380 million for the year ended March 31, 2011.

5. Material developments in Human Resources / Industrial Relations front, including number of people employed

a. The number of employees in the year under review was 5,696.

b. There were no material developments as regards human resources / industrial relations front during the period under review.

6. Your Company's major initiatives undertaken in FY11 and planned initiatives for FY12

6.1 Initiatives undertaken in the year under review to enhance your Company's cost competitiveness:

- Focus on high aircraft utilization for all network scenarios.
- Implementation of significant Fuel Optimization measures such as rigorous implementation of the Cost Index, re-evaluation of flight dispatch plans to optimize sector fuel assumptions.
- Re-negotiated select aircraft leases to reduce lease rentals.
- Complete removal of expats from the A320 and ATR fleet and optimization of headcount of cockpit and cabin crew to fleet count.
- Optimization of meals uplifted on board to control catering cost.
- Re-negotiation of select agreements pertaining to Engineering & Maintenance, Ground Handling and with Distribution agencies.
- Re-configuration of aircraft to add more seats per aircraft.

6.2 Initiatives undertaken in the year under review to enhance your Company's revenue productivity:

- Improvement in maximizing network traffic flows by introducing network pricing and advanced revenue management techniques.
- Increased focus on higher customer retention by focusing on return traffic.
- Improvement in cargo revenues through revenue management opportunities.
- Continued focus on high yielding Corporate traffic.

However, from November 2011, revenue generation has been significantly impacted by the decision for operational downsizing, continued adverse media publicity and subsequent distribution issues caused by suspension from the IATA Billing and Settlement Plan (BSP).

6.3 Catering, Airport and Cargo Services related initiatives undertaken in the year under review to enhance your Company's revenue productivity and cut further costs:

- **Catering:**
  - o Your Company introduced measures to tightly control on-board meal wastage.
  - o Re-designed, cost effective menu options were introduced to suit the diverse tastes of the discerning Indian consumer.
  - o Buy-on-Board concept of your Company is now limited to ATR flights.

- **Airport & Cargo Services:**

  Revenue / Cost Related Initiatives
  - o Despite operational downsizing, Cargo revenue achieved was at 98% of 2010-11 actuals. "Door-To-Door" cargo service in particular grew by 44.33%.
  - o Excess Baggage "Revenue per guest" increased by 25%.
  - o Re-negotiating ground handling, cargo contracts and lounge rates, downsizing resources taken from third party agents and airport premise space reduction has resulted in significant operational cost savings for the year under review.
  - o Ground services personnel has been tightly monitored and sized to reduced scale of operations since November 2011.

  Operations Excellence
  - o Promoted the active use of "Web Check-In" facility to reduce congestion and optimize staffing at airport counters.
  - o Only Indian Carrier to promote use of Kiosk check-in facility at 4 Metros. Also liaised with airport authorities to introduce facility to print out tickets with a common kiosk outside airport.

6.4 Marketing and Commercial Initiatives undertaken during the year under review to enhance your Company's consumer connect:

- To aggressively drive choice for Kingfisher First, your Company's business class product to corporate flyers.
- To win market share in key markets through innovative offers for consumers.
- To leverage associations with Sahara Force India and Royal Challengers Bangalore (Indian Premier League cricket team) and offer unique experiences to our guests.
- To further strengthen your Company's relationship with travel agents.
- Increase penetration in the corporate segment.
- Increased rigor in driving sales from global markets.

Marketing initiatives 2011-12

Domestic:

- Your Company launched "Business Mileage" privilege program for the Small & Medium Enterprise (SME) segment, with the objective of driving loyalty amongst the SME segment. The program offers a host of benefits including a complementary Gold tier and upgrade vouchers.
- During the year under review, your Company developed and successfully executed consumer and trade promotions which contributed towards incremental revenue for FY 2011-12, as well as built consumer and guest engagement through interactive contests across the social media network.
- Your Company leveraged association with Sahara Force India and created special promotions and packages for KFA guests during the lead-up to the Indian Grand Prix, offering them an opportunity to witness the race live.

International:

- Your Company launched a thematic campaign, "India is Kingfisher Country" in Dubai promoting Kingfisher Airlines as the preferred choice of Airline in India owing to its connectivity.

6.5 Marketing Initiatives and launches proposed to further improve consumer connect:

- Thematic campaign to win back Consumer confidence.
- Reinforce brand imagery through a new thematic campaign.
- Continue to leverage properties such as Sahara Force India and Royal Challengers Bangalore to provide unique experiences to guests and trade.

- Drive seat factors through campaigns based on analytics.

6.6 Key Marketing Initiatives from King Club:

King Club ensured a steady link to loyal customers was maintained by your Company under trying circumstances. Over the year, King Club innovated on its program designs to better engage the base of its loyal customers.

Between August – October 2011, King Club ran "Feel the Force" campaign, an innovative Fantasy Formula1 contest leveraging the Sahara Force India association and targeted at the inaugural Indian Grand Prix. The campaign was chosen as the Best Loyalty Innovation within the Judge's Choice category at the Loyalty Awards 2012 organized by Flight Global.

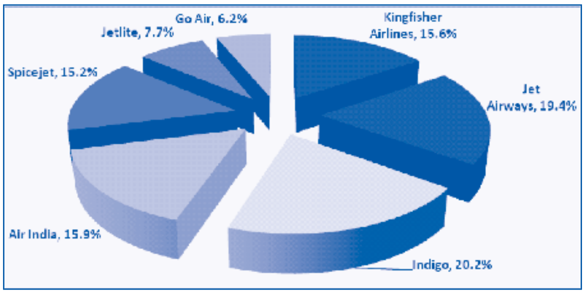
King Club also maintained key co-brand relationships through the year under review with American Express, ICICI and other key banks. From the overall **one**world perspective, King Club also successfully entered and maintained bilateral frequent flyer partnerships with British Airways, Finnair, American Airlines, Cathay Pacific Airways allowing King Club members to earn and redeem King Miles by flying on these airlines anywhere in the world.

7. Your Company and oneworld Alliance

Your Company continues to maintain a "member-elect" status with the **one**world Alliance. The 15 to 18 month complex integration process was successfully near completion for the February 10, 2012 integration date. However, in light of priorities centered around your Company's recapitalization efforts, the **one**world management team agreed with your Company to defer the joining date - a move that would give your Company more time to address the challenges. They agreed to work with your Company during this phase with an aim of setting a new joining date.

8. Your Company's Outlook

a. Your Company which commenced scheduled airline operations in August 2003 endured significant operational challenges through the year – despite a series of steps to contain operational losses through capacity rationalization, your Company managed to retain its position within the top half of the Indian airline industry. Due to the tough operating environment, your Company is currently operating as a "holding pattern" with limited operation, pending policy changes which are in the offing. This will have an impact on the market share till the anticipated changes are in effect.



b. The Indian economy will be slower in 2012-13 with GDP growth estimated to be around 6.5% for 2012-13 and this will potentially reflect in lower growth for the aviation industry.

c. Domestic capacity expansion will be in line with demand; resulting in potential stagnation and/or muted growth of industry load factors in 2012-13.

d. Yields are expected to remain stable given the fierce competition in the domestic industry. Your Company's phased transition out of the low cost branding should help in capturing potential yield premium from the discerning Indian consumer who pegs price to the quality of service being offered.

e. Fuel price has shown continued sustenance through 2011-12, industry experts believe jet fuel price will correspond to an average crude oil price of over US$ 120 per barrel. This will continue to constrain airline profitability.

f. In 2012-13, your Company plans to focus on recapitalization, phased recovery of grounded aircraft, regaining premium market yields alongside driving a focused cost reduction plan to set in the foundation for a profitable airline of the future.

g. Your Company will also continuously evaluate and potentially re-initiate limited international operations, which were substantially curtailed by the end of 2011-12.

9. Opportunities and Threats, Risks and Concerns

a. Your Company's focus in 2012-13 will be to recover its position in the domestic market aided by anticipated policy changes. Your Company plans to undertake a phased and pragmatic approach to re-induction of capacity as well as further market expansion. The focus will be on maximizing the nascent potential of the domestic Indian market and capitalizing on strategic international routes.

b. Your Company will continue to closely monitor key market trends as well as macro-economic environment in the Country from a global perspective linked to the recovery plan.

c. Your Company will proactively review and undertake measures to maximize profits and reduce losses, including:
   - Planning for phased capacity re-induction.
   - Transitioning to a single brand offering.
   - Strengthening route structures and reconfiguring aircraft for productivity.
   - Reviving sales and distribution reach.
   - Improving aircraft utilization and scheduling efficiency.
   - Focusing on driving revenue premium through yield management.
   - Optimizing human resources utilization.
   - Comprehensively reviewing costs across all key functions.

d. Your Company continues to actively manage fuel consumption in a bid to conserve this precious natural resource and contain the adverse impact of steep increases in jet fuel prices.

e. Sales tax on jet fuel in India continues to be significantly higher compared to global markets. Sales Tax is currently a State subject and follows an *Ad Valorem* methodology. Your Company has made several representations to both the Central and State governments seeking reduction in Sales Tax rate on jet fuel as well as proposing a rationalization of the tax structure to a fixed rate that eliminates direct exposure to Sales Tax because of fluctuations in crude oil price. A change in the fuel tax regime on these lines would provide a significant upside to your Company's operations as fuel now constitutes over 40-45% of the airline's operating cost.

f. Your Company will also explore the opportunity presented for direct import of jet fuel vide the recent permission granted by the Director General of Foreign Trade (DGFT) to reduce the incidence of fuel costs.

g. The current FDI policy of the Government of India still does not allow foreign airlines to invest in domestic scheduled airlines. However, a 49% investment is allowed to foreign institutional investors. The Government has been actively considering relaxing this to include foreign airlines based on several representations made by your Company and other domestic carriers. This change in policy could provide your Company with widened access to equity capital and potential to induct strategic partners.

h. The Government of India has been making significant progress with respect to aviation infrastructure development in the Country and thereby addressing air traffic congestion at key airports. The results are already showing with the opening of the modern, world-class Terminal-3 at Delhi Airport. Expediting these initiatives in other key metros such as Mumbai and Kolkata coupled with focus on some of the fast-growing Tier-2 and Tier-3 airports will benefit your Company by providing for more efficient facilities and better guest experience.

10. Awards & Accolades

During the year under review, your Company has received the following awards and accolades:

1) 'Best Indian Airline' Award from Business Traveller Magazine – London.
2) 'Flight Global Award for Best Loyalty Innovation' from Flight Global.
3) 'Best Airline for Business Travel within India' and 'Best Airline for Leisure Travel within India' from Conde NAST READER Travel Awards.
4) 'Best Loyalty Innovation' Award in the "Judge's Choice" category at Loyalty Awards 2012 hosted by Flight Global.

Cautionary Statement

Statements in the management discussion and analysis describing your Company's objectives, projections, estimate, expectations may be 'forward-looking statement' within the meaning of applicable securities laws and regulations. Actual results could differ materially from those expressed or implied. Important factors that could make a difference to your Company's operations include economic conditions in the domestic markets and overseas markets in which your Company operates, changes in the Government Regulations, tax laws and other statutes and incidental factors.