

DIRECTORS' REPORT**To The Members,**

Your Directors present the 12th Annual Report along with the Audited Accounts of 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 30th June 2007	15 months ended 30th June 2006
Gross Income	21423	13518
Earnings before Financial charges, Lease Rentals, Depreciation and Taxes (EBITDAR)	931	200
Depreciation & Amortisation	439	323
Lease Rentals	4031	2925
Financial charges	624	320
Profit before taxes	(-)4162	(-)3368
Provision for taxes (incl. FBT)	34	37
Net Profit 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, through June 30, 2007 (up from 5.6 million through June 30, 2006);
- expanded its fleet to 41 aircrafts as on June 30, 2007 (34 aircrafts as of June 30, 2006);
- grown its schedule to 270 flights daily, as on June 30, 2007 (239 flights as of June 30, 2006);
- increased its route network to 63 airports as on June 30, 2007 (55 airports as of June 30, 2006);
- hired and mobilized a workforce of almost 3100 people as of June 30, 2007 (2,600 as of 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 costs during the period (almost 10% 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's 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 lac post offices and over 6 lac 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 30th June, 2007 and an agreement was entered into between the Promoters of Deccan Aviation Limited, 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.

This investment by the UB Group will ensure that the Company's robust Low cost business model is nurtured and this association provides for 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, connections, 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 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.

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 as well as operational and maintenance 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’s 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 (Accounting for 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 The 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.

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

The Auditors of the Company, M/s. B K Ramadhyani & Co, 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(1-B) 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 to the 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 period ended June 20, 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 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 Authorities 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

TWELFTH ANNUAL REPORT 2006-2007

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)	-33,733,678	
(n)	Proforma Earning Per Share if the Charge have been accounted in accordance with fair value method	Rs.(41.90)	Rs.(68.62)

TWELFTH ANNUAL REPORT 2006-2007

	(Black Scholes Method)		
(o)	(i) Weighted-averaged exercise prices and	Rs.65.00	Rs.65.00
	(ii) weighted-average fair values of options for options whose exercise price either equals or exceeds or is less than the market price of the stock	Rs.72.85	Rs.63.00
(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 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 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.

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 fuel expenditure. Increases in the price of 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 Aviation Turbine Fuel (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 four Non-executive Directors: Mr A K Ganguly, Chairman, Mr P N Thirunarayana, Mr. S N Ladhani, 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.
- The Company has a Corporate Compliance Procedure to ensure that all laws, rules and regulations applicable to our industry are complied with. Based on confirmation from all departmental heads, the Managing Director places before the Board a Corporate Compliance Certificate at every Board Meeting.
- The Company Secretary is the designated Compliance Officer to ensure compliance with SEBI regulations and with our Listing Agreement with National Stock Exchange of India Limited and Bombay Stock Exchange Limited.
- The Company has a process of both external and internal safety audits for each area of operation. The Company is in full compliance with all laws, rules and regulations relating to airworthiness, air safety and other statutory operational requirements.
- The 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.

7. Discussion on financial performance with respect to operational performance

The current financial period is for 12 months from July 2006 to June 2007 and is, therefore, not strictly comparable with the results of the previous financial period of 15 months from April 2005 to June 2006 (Fiscal 2006).

Key trends and developments during the twelve months ended June 30, 2007 included:

TWELFTH ANNUAL REPORT 2006-2007

- a 20.59 % increase in the number of aircrafts in the Air Deccan fleet, from 34 aircrafts as on June 30, 2006 to 41 aircrafts as on June 30, 2007, with the net addition of 4 ATRs and 5 Airbus A320s;
- a 15% increase in the number of airports served, from 55 airports as on June 30, 2006 to 63 airports as on June 30, 2007 ; and
- a 13% increase in the number of flights operated, from 239 routes as on June 30, 2006 to 270 routes as on June 30, 2007 .

Income

Our total income stood at Rs. 21423 million in the twelve months ended June 30, 2007. Sale of airline tickets and related income accounted for 79.81% of the total income as compared to 86.74% in Fiscal 2006. This increase was principally due to the expansion of our airline operations.

Sale of Airline Tickets and Related Income

Sale of airline tickets and related income stood at Rs. 17746 million in the twelve months ended June 30, 2007, principally due to:

- increase in the number of passengers flown which represented an increase of 2,333,452 or 52.45% more passengers than it flew in Fiscal 2006.
- induction into service of 9 aircrafts (5 Airbus A320s and 4 ATRs), and
- increase in our network in terms of number of sectors, flights and airports connected.

Helicopter Charter and Other Services

Revenues from Helicopter charter and other services stood at Rs. 647 million in the twelve months ended June 30, 2007 against Rs. 638.16 million in Fiscal 2006.

Other Income

Other income stood at Rs.3677 million in the twelve months ended June 30, 2007. Of this amount, profit on transfer of aircraft/engine purchase rights contributed Rs. 2884 million, or 78.43% of the total other income. We also earned certain credits from aircraft manufacturers amounting to Rs. 275.61 million, which accrued during the year under review.

Expenditure

Total expenditure stood at Rs. 25,585 million for the year ended June 30, 2007. In these twelve months, our costs were largely affected by fuel price increases, an increase in the number of our pilots, cabin crew and engineers and the increase in the levels of pilots' and engineers' salaries and other costs directly attributable to the growth of the Air Deccan scheduled airline operations such as lease rentals, airport related charges, repairs and maintenance, selling, administration and general expenses, employee-related costs and other direct operating expenses. The number of available seats flown during the twelve months ended June 30, 2007 was 8,682,447 as compared to 6,031,409 available seats flown for the fifteen months ended June 30, 2006.

Aircraft Fuel Expenses

TWELFTH ANNUAL REPORT 2006-2007

Expenditure on fuel stood at Rs.9795 million for the year ended June 30, 2007. Aircraft fuel costs increased from 50.59 % of our income in Fiscal 2006 to 55.20% of our income for the year ended June 30, 2007. This increase was principally due to the increase in fleet size and the consequent increase in routes flown, and the 9% average increase in unit fuel cost for the year ended June 30, 2007 as compared to Fiscal 2006.

Aircraft/Engine Lease Rentals

Aircraft/engine lease rentals stood at Rs. 4030 million for the twelve months ended June 30, 2007. During the year under review we added 4 ATRs and 5 Airbus A320s on lease, which added to the lease rentals on our existing fleet.

Other Direct Operating Expenses

Other direct operating expenses stood at Rs. 6907 million for the year ended June 30, 2007 against Rs. 5058 million for Fiscal 2006. This was 38.92% of our income for the twelve months ended June 30, 2007, against 40.91% for Fiscal 2006. Other direct operating expenses increased principally due to the acquisition of additional aircraft and the addition of capacities, routes and sectors by Air Deccan, and increases in related costs including repairs and maintenance, airport charges/ground handling, spares and components consumed (including amortization of rotables), insurance and selling and distribution costs. These costs also included costs related to the setting up and maintenance of infrastructure at new airports and for the additional flights we commenced serving during this period. However, strong and sustained cost management ensured that this component reduced as a percentage of income.

Employee Remuneration and Benefits

Employee remuneration and benefits stood at Rs.2518 million for the twelve months ended June 30, 2007, representing 14.19% of our income during the period as against 13.80% in Fiscal 2006. This is attributable to the following:

- an increase in the number of employees as demanded by our expanding operations. Our total number of employees as of June 30, 2006 was 2800, as compared to 3058 employees as of June 30, 2007;
- an increase in salaries, particularly those of pilots, co-pilots and engineers, as a result of increased demand caused by the deployment of additional aircraft by existing and new airlines; and
- the appointment of pilots, cabin crew and engineers in anticipation of delivery of additional aircraft to ensure their availability at the time of aircraft delivery.

Selling, General and Administrative Expenses

Administrative and general expenses stood at Rs. 1093 million for the year ended June 30, 2007. These expenses decreased from 7.12% of our total income for the fifteen months ended June 30, 2006 to 6.16% of our total income for year ended June 30, 2007. In spite of an increase in airline operations and the widening of our network, and a resultant increase in expenses for support services, including network connectivity, communication, rentals and travel, advertisement and selling expenses, the cost as a percentage of our income declined due to execution of robust cost management and reduction techniques

Finance and Banking Charges

TWELFTH ANNUAL REPORT 2006-2007

Finance and banking charges were Rs.624 million for the year ended June 30, 2007. These expenses increased from 2.59% of the income for the fifteen months ended June 30, 2006 to 3.52% for the year ended June 30, 2007. These expenses include the interest on two ATRs acquired on a hire purchase basis and one ATR obtained on ownership basis and financed by a local financial company.

Amortisation

Amortisation charges stood at Rs.262 million for the year ended June 30, 2007.

Depreciation

Depreciation charges were Rs.177 million for the twelve months ended June 30, 2007. These expenses reflect principally the depreciation on two ATRs acquired on a hire purchase basis and one ATR obtained on ownership basis and financed by a local financial company.

Provision for Tax

Our total tax expense, comprising fringe benefit tax, was Rs. 33.99 million for the year ended June 30, 2007. Current tax and deferred tax expense were nil in the year ended June 30, 2007.

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

The Indian aviation industry continues to experience a shortage of locally available skilled manpower, especially pilots, co-pilots and engineers. Expatriate skilled personnel are available in sufficient numbers but current regulations have some restrictions on the employment of certain categories of skilled personnel. To the extent possible, we continue to employ both local and expatriate personnel and continue to proactively recruit and retain all categories of personnel in keeping with our planned growth and fleet acquisition plan. Employee costs continue to show an upward trend in view of the competitive market conditions for skilled and experienced personnel.

The total number of employees as of June 30, 2007 was 3058 as compared to 2800 as of June 30, 2006.

TWELFTH ANNUAL REPORT 2006-2007

CORPORATE GOVERNANCE

Information given in this Report relates to the Financial Year ended 30th June, 2007.

Company's Philosophy on Corporate Governance

Deccan Aviation Limited firmly believes in the principles of Corporate Governance and is committed to conduct its business in a manner, which will ensure sustainable, capital-efficient and long-term growth thereby maximizing value for its shareholders, customers, employees and society at large. The Company's policies are in line with Corporate Governance guidelines prescribed under Listing Agreement/s with Stock Exchanges and the Company ensures that various disclosures requirements are complied in 'letter and spirit' for effective Corporate Governance.

Board of Directors

The Company's Board comprises of 10 directors, out of which 3 are Executive Directors and 7 are Non-Executive Directors.

The composition of the Board of Directors during the year under review, the number of other Directorships and Committee Memberships held by them as on the date of the report and Directors' attendance at the 7 Board Meetings held during the period under review and the last AGM are given below.

Sr. No.	Name of the Director	Category of Directorship	No. of Board Meetings attended	Attendance at last AGM	No. of Other Directorships	Other Committee Memberships	
						Member	Chairman
1.	Lt. Gen. (Retd.) N S Narahari(Chairman)	Non-Executive Independent Chairman	7	No	-	1	1
2.	Mr. S N Ladhani (Alternate Director – Mr. Vishnu Singh Rawal)	Non-Executive Non-Independent Director	6	No	-	0	0
3.	Capt. G R Gopinath	Managing Director Non-Independent Promoter	7	Yes	-	-	-
4.	Capt. K J Samuel	Executive Director Non-Independent Promoter	5	Yes	-	-	-

TWELFTH ANNUAL REPORT 2006-2007

5.	Mr. Vijay Amritraj	Non-Executive Independent Director	0	No	1	2	-
6.	Mr. Sudhir Choudhrie* (Alternate Director - Mr. Sumant Kapur)	Non-Executive Non-Independent Director	0	No	-	-	-
7.	Col. Jayanth K Poovaiah	Executive Non-Independent Director	7	Yes	-	1	-
8.	Mr. M.G. Mohan Kumar**	Executive Non-Independent Director	5	Yes	-	-	-
9.	Mr. Vivek Kalra***	Non-Executive Non-Independent Director	6	No	-	1	1
10.	Ms. Bala Deshpande	Non-Executive Non-Independent Director	4	No	9	6	1
11.	Prof P N Thirunarayana	Non-Executive Independent Director	6	No	1	2	0
12.	Mr. Anil Kumar Ganguly	Non-Executive Independent Director	6	Yes	0	1	2

Notes:

1. Directorships held in other Public Limited Companies only.
2. *Resigned with effect from 28th June, 2007.
3. **Resigned with effect from 31st January, 2007.
4. *** Resigned with effect from 2nd July, 2007
5. Mr. Vishnu Singh Rawal is also one of the Promoters of the Company and Alternate Director to Mr. S N. Ladhani. He was present at 4 Board Meetings as invitee.

TWELFTH ANNUAL REPORT 2006-2007

During the period ended 30th June, 2007 Seven (7) Board Meetings were held. The meetings were held on 4th July, 2006, 22nd September, 2006, 30th October, 2006, 11th December, 2006, 25th January, 2007, 26th April, 2007, and 31st May 2007.

Necessary information relating to matters stated in Annexure 1A to Clause 49 of the Listing Agreement has been placed before the Board for their consideration.

Audit Committee

The Audit Committee as reconstituted on 25th January, 2007 has 3 Independent Non-Executive Directors and 2 Non-Independent Non-Executive Directors and all the members of the Committee have adequate financial and accounting knowledge. Mr. Anil Kumar Ganguly, Chairman of the committee is an Independent Non-Executive Director and Mr. N Srivatsa, Company Secretary, is the Secretary of the committee.

In view of the resignation of Mr. Vivek Kalra from the Board, the Audit Committee has been reconstituted on 20th August, 2007 by including Mr. S N Ladhani as one of the members in compliance of the Articles of Association of the Company.

The terms of reference to the Audit Committee cover the areas mentioned under Clause 49 of the Listing Agreement and Section 292A of the Companies Act, 1956, besides some other functions as are referred to it by the Board of Directors.

During the financial year, the Committee met on 22nd September 2006, 30th October 2006, 9th December 2006, 25th January 2007 and 26th April, 2007. The composition of the committee and Directors' attendance at the committee meetings is as below.

Members	Category	No. of Meetings Attended
Mr. Anil Kumar Ganguly	Non-Executive/Independent	5
Lt Gen N S Narahari	Non-Executive/Independent	5
Mr.P N Thirunarayana	Non-Executive/Independent	5
Mr. Vivek Kalra*	Non-Executive/Non-Independent	4
Ms. Bala Deshpande	Non-Executive/ Non-Independent	1

* Resigned w.e.f. 2nd July, 2007

Share Allotment, Transfers and Investor Grievance Committee

The Share Allotment, Transfers and Investor Grievance Committee as reconstituted on 25th January 2007, has 2 Independent Non-Executive Directors and 3 Non-Independent Directors. Mr. Anil Kumar Ganguly, Chairman of the committee, is a Non-Executive and Independent Director. Mr. N Srivatsa, Company Secretary, is the Compliance Officer.

In view of the resignation of Ms. Bala Deshpande from the Share Allotment, Transfers and Investor Grievance Committee and Mr. Vivek Kalra from the Board, the Share Allotment, Transfers and Investor Grievance Committee has been reconstituted on 20th August, 2007 by including Mr. S N Ladhani and Capt K J Samuel as members in compliance of the Articles of Association of the Company.

TWELFTH ANNUAL REPORT 2006-2007

The terms of reference of Share Allotment, Transfers and Investor Grievance Committee include redressal of shareholders/investors complaints and transfer of shares.

During the year under review, the committee met 9 times, on 31st July 2006, 31st August 2006, 5th October 2006, 16th October 2006, 23rd December 2006, 25th January 2007, 15th March 2007, 31st March 2007 and 30th June, 2007 and reviewed the status of shareholders' grievances, approved share transfers and allotted fresh shares consequent to IPO. The composition of the committee and Directors' attendance at the committee meetings is as below.

Member Director	Category	No. of Meetings Attended
Mr. Anil Kumar Ganguly	Non-Executive/Independent	6
Mr. M G Mohan Kumar	Executive/ Non-Independent	6
Col. Jayanth K Poovaiah	Executive/ Non-Independent	9
Lt Gen N S Narahari	Non-Executive/Independent	3
Mr. Vivek Kalra*	Non-Executive/Non-Independent	0
Ms. Bala Deshpande#	Non-Executive/ Non-Independent	0

* Resigned w.e.f. 2nd July, 2007

Resigned from the committee w.e.f 1st April, 2007

Shareholders complaints/queries received during the period from 1st July 2006 to 30th June, 2007.

During the year under review, 798 complaints were received and replied / redressed to the satisfaction of the shareholders during the period from 1st July 2006 to 30th June 2007.

Remuneration Committee

The Remuneration Committee, as reconstituted on 21st December 2005, has 3 Independent Non-Executive Directors and 2 Non-Independent Non-Executive Directors. The Chairman of the Committee is appointed at the Committee Meetings and Mr. N Srivatsa, Company Secretary, is the Secretary of the committee.

In view of the resignation of Mr. Vivek Kalra from the Board, the Remuneration Committee was reconstituted on 20th August, 2007 by including Mr. S N Ladhani as one of the members in compliance of the Articles of Association of the Company.

During the year under review, the committee met once, on 26th April, 2007. The composition of the committee and Directors' attendance at the committee meetings is presented below.

Members	Category	No. of Meetings Attended
Mr. Vivek Kalra*	Non-Executive/ Non-Independent	1
Ms. Bala Deshpande	Non-Executive/ Non-Independent	1
Lt Gen N S Narahari	Non-Executive/Independent	1

TWELFTH ANNUAL REPORT 2006-2007

Mr. P N Thirunarayana	Non-Executive/Independent	1
Mr. Anil Kumar Ganguly	Non-Executive/Independent	1

* Resigned w.e.f. 2nd July, 2007

The Remuneration Committee of the Board specifically looks into:

- Framing policies and compensation including salaries and salary adjustments, incentives, bonuses, promotion, benefits, stock options and performance targets of top executives.
- Remuneration of Directors.
- Strategies for attracting and retaining employees, employee development programmes.
- Key issues referred by the Board

Details of remuneration paid to the Directors during the year under review

The remuneration paid to the Executive Directors viz. Capt G R Gopinath - Managing Director, Capt K J Samuel - Executive Director, Col. Jayanth K Poovaiah - Executive Director, and Mr. Vishnu Singh Rawal - Alternate Director is reviewed by the Remuneration Committee and approved by the Board of Directors and the shareholders of the Company.

Remuneration of Executive Directors:

Name	Salary payable	Actual Salary paid (Rs.)
Capt. G R Gopinath Managing Director	Rs. 30 lacs p.a.	30,00,000
Capt. K J Samuel Executive Director	Rs. 14.88 lacs p.a.	14,88,000
Col. Jayanth K Poovaiah Executive Director	Increased from Rs. 15 lacs p.a. to Rs. 19.20 lacs p.a. plus flying allowance, the total remuneration not exceeding however, Rs. 24,00,000 p.a effective 1 st April, 2007, for each year of his employment	*16,62,750
Mr. M.G. Mohan Kumar Director-Finance	Rs. 30 lacs p.a.	17,50,000
Mr. Vishnu Singh Rawal	Rs. 24 lacs p.a.	24,00,000

*The Remuneration Committee at its meeting held on 26th April, 2007 had approved the revision in the remuneration of Col. Jayanth K Poovaiah from Rs. 15 lacs p.a. to Rs. 19.20 lacs p.a. plus flying allowance, the total remuneration not exceeding however, Rs. 24,00,000 p.a effective 1st April, 2007, for each year of his employment.

Mr. Vishnu Singh Rawal - Alternate Director was paid a salary of Rs.24 lacs during the period under review as he was in the whole time employment of the Company.

TWELFTH ANNUAL REPORT 2006-2007

Sitting fees of Non-Executive Directors:

Name	Fees paid for attending Board/ Committee Meetings (Rs.)
Lt. Gen. (Retd.) N S Narahari	2,40,000
Mr. S N Ladhani	1,00,000
Mr. Vijay Amritraj	0
Mr. Sudhir Choudhrie	0
Mr. Vivek Kalra	0
Ms. Bala Deshpande	0
Mr. P N Thirunarayana	1,90,000
Mr. Anil Kumar Ganguly	2,50,000

*Excepting as stated in Note 18 of the Notes to Accounts, none of the non-executive directors of the Company have any pecuniary relationship or transaction with the Company.

Shareholding of Non Executive Directors as on 30.6.2007:

Name	Shareholding No. of Shares
Lt. Gen. (Retd.) N S Narahari	Nil
Mr. S N Ladhani	13155
Mr. Vijay Amritraj	Nil
Mr. Sudhir Choudhrie*	456000
Mr. Sumant Kapur*	912000
Mr. Vivek Kalra	Nil
Ms. Bala Deshpande	Nil
Prof P N Thirunarayana	Nil
Mr. Anil Kumar Ganguly	Nil

* Resigned w.e.f. 28th June, 2007

None of the Non-Executive Directors owns any shares on beneficial basis.

Employee Stock Option to Directors

Col. Jayanth K Poovaiah - Executive Director was granted options under the Employee Stock Option Plan of the Company as follows:

Scheme	No. of options granted
ESOP 2005	154000
ESOP 2006	100000

TWELFTH ANNUAL REPORT 2006-2007

General Body Meetings

i. The details about the last three Annual General Meetings are given below:

AGM	Financial Year	Location	Date	Time
9 th	2003-2004	Jakkur Aerodrome, Bellary Road, Bangalore 560 064	30 th September,2004	4.00.p.m.
10 th	2004-2005	Jakkur Aerodrome, Bellary Road, Bangalore 560 064	22 nd October,2005	10.00.a.m.
11 th	2005-2006	Dr. Ambedkar Bhavan, Millers Road, Vasanthnagar, Bangalore - \560 052	11 th December, 2006	10.30.a.m.

Since the date of the last Annual General Meeting, one Extra Ordinary General Meeting was held on 26th June, 2007 at which a Special Resolution was passed for the allotment of shares on preferential basis to UB Group.

ii. Special Resolutions passed in the previous three Annual General Meetings

Year	Subject
30 th September,2004	None
22 nd October,2005	None
11 th December, 2006	1. Appointment of Mr. P. N. Thirunarayana as Director 2. Appointment of Mr. Anil Kumar Ganguly as Director 3. Ratification and approval of ESOP 2006 4. Issue of Shares on Preferential Basis

iii. Whether special resolutions were put through postal ballot last year, details of voting pattern, person who conducted the postal ballot exercise, proposed to be conducted through postal ballot and procedures for postal ballot.

There was no special resolution which was required to be passed by Postal Ballot. No special resolution is proposed to be passed at the ensuing Annual General Meeting, by Postal Ballot.

Disclosures

i. Related party transactions

During the year under review, besides the transactions reported in Notes to Accounts (Note 18 in Schedule 21) there were no other related party transactions with the promoters, directors, management and subsidiaries. The related parties do not vote on the related party transactions. The interest of Directors, if any, on transactions are disclosed at Board Meetings and the interested Director does not participate in the discussion or vote on such transactions, Details of transactions if any with related parties are placed before the Audit Committee on quarterly basis. All transactions with related parties during the period ended 30th June 2007 were in the normal course of business and did not conflict with the interest of the Company at large.

Accounting Treatment

The Company's financial statements are prepared as per the guidelines of Accounting Standards under Indian GAAP.

Risk Management

The Company has laid down procedures to inform Board Members about the risk assessment and minimization procedures. These are periodically reviewed to ensure that executive management controls risk through means of a properly defined frame work.

Utilisation of Public Issue Proceeds

The Company had raised a sum of Rs. 3632.81mn by way of an Initial Public Offer (IPO) in May 2006. The statement of uses / application of the said funds as of June 30, 2007, has been reviewed by the Audit Committee and placed before the Board for approval. The deviations in utilisation of funds vis-a- vis Objects of the Issue as stated in the Prospectus dated May 31st 2006 was primarily relating to General Corporate purposes for which Rs. 929.7mn have been utilised as on 30th June 2007 as against the stated Rs.419.5mn. In view of certain identified and realized savings in certain items of planned uses of the IPO proceeds the resultant savings have been transferred to General Corporate purposes to the tune of Rs.492.50 mn.

ii. Details of non-compliance

During the last three years, there were no strictures or penalties imposed by SEBI or the Stock Exchanges or any statutory authority for non-compliance of any matter related to capital markets.

iii. Compliance with mandatory requirements and adoption of non-mandatory requirements of Clause 49 of the Listing Agreement

The Company has complied with all the mandatory requirements of Corporate Governance as specified under Clause 49 of the Listing Agreement and non-mandatory requirements have been followed to the following extent:-

Remuneration Committee

A Remuneration Committee has been constituted, the details of which have been provided earlier in the Report.

Some of the non mandatory requirements are not being followed for the reasons given against the requirements as follows:

Shareholder Rights

The unaudited/audited financial results are published in English in a newspaper having wide circulation all over India and also in a vernacular newspaper and are also displayed on the Company's website and are therefore not sent separately to the shareholders.

Training of Board Members

The Board of Directors comprises of well-experienced members and their formal training is considered not necessary.

TWELFTH ANNUAL REPORT 2006-2007

iv. Whistle Blower Policy

The Company does not have any formal Whistle Blower Policy. But any employee of the Company can approach the Audit Committee if he/she so desires.

Means of Communication

The quarterly results are published as per the listing requirements. They are published in English and in Kannada in well known newspapers.

The Company's results are filed with the Stock Exchanges by Fax and Courier. At the end of each quarter the Company conducts an earnings call with analysts and investors.

The domain name of Company's website is www.flyairdeccan.net and up-to-date financial results, official news releases, financial analysis reports and other general information about the Company is available on this website.

Management Discussion and Analysis report forms part of the Directors' Report.

General Shareholders' Information

Annual General Meeting

Date	28 th November, 2007
Time	4.30..p m.
Venue	Good Shepherd Auditorium, Opp. St. Joseph's Pre-University College, Residency Road, Bangalore 560025
Financial Year	1 st July 2006 to 30 th June 2007
Dates of Book Closure	22 nd November, 2007 to 28 th November, 2007
Dividend Payment Date	The Company has not declared any dividend for the financial year 2006-07
Listing on Stock Exchanges in India	The Bombay Stock Exchange Limited, P J Towers, Dalal Street , Mumbai 400 001 The National Stock Exchange Limited, Exchange Plaza, C/1, Block G, Bandra-Kurla Complex, Bandra (E), Mumbai 400 051
Stock Code	BSE- AIRDECAN NSE- AIRDECCAN
Listing Fees	The listing fees for the year 2007-08 have been paid to both the stock exchanges where the Company's equity shares are listed.
Registered Office	Deccan Aviation Limited 35/2, Cunningham Road, Bangalore 560 052

TWELFTH ANNUAL REPORT 2006-2007

Financial Calendar for the period 1st July 2007 to 30th June 2008 is as given below:

First Quarter Results : October, 2007

Second Quarter and Half -yearly Results : January, 2008

Third Quarter Results : April, 2008

Fourth Quarter Results : July, 2008

Market Price Data

The shares of the Company are listed on The Bombay Stock Exchange Limited and the National Stock Exchange Limited. The table below sets out the monthly high and low quotations of the shares traded during the period under review. The Company's Management cautions the readers that the share price performance shown in the table below should not be considered to be indicative of the share price in the future.

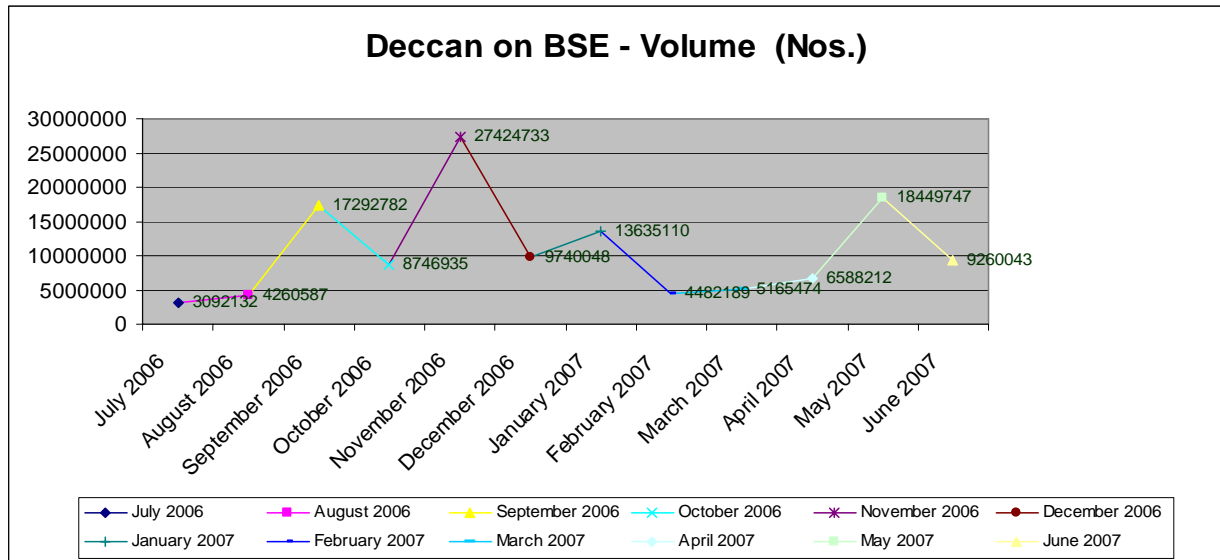
Share Price with BSE & NSE

AIRDECCAN ON BSE				AIRDECCAN ON NSE		
Month	High (Rs.)	Low (Rs.)	Volume (Nos.)	High (Rs.)	Low (Rs.)	Volume (Nos.)
July 2006	88.25	64.00	3092132	79.29	75.15	265185
August 2006	90.95	73.50	4260587	82.29	78.51	384176
September 2006	121.00	82.00	17292782	104.49	96.54	1515225
October 2006	119.00	95.50	8746935	106.61	100.90	822695
November 2006	154.90	105.05	27424733	130.65	121.46	2332266
December 2006	146.90	114.50	9740048	136.47	127.73	960857
January 2007	162.70	134.25	13635110	154.19	146.22	1552086
February 2007	154.00	115.00	4482189	138.30	130.94	510914
March 2007	129.00	91.10	5165474	105.71	100.31	151151
April 2007	121.00	87.00	6588212	107.06	101.80	584912
May 2007	149.80	102.00	18449747	130.89	121.08	2006202
June 2007	160.00	111.80	9260043	140.83	134.88	1186875

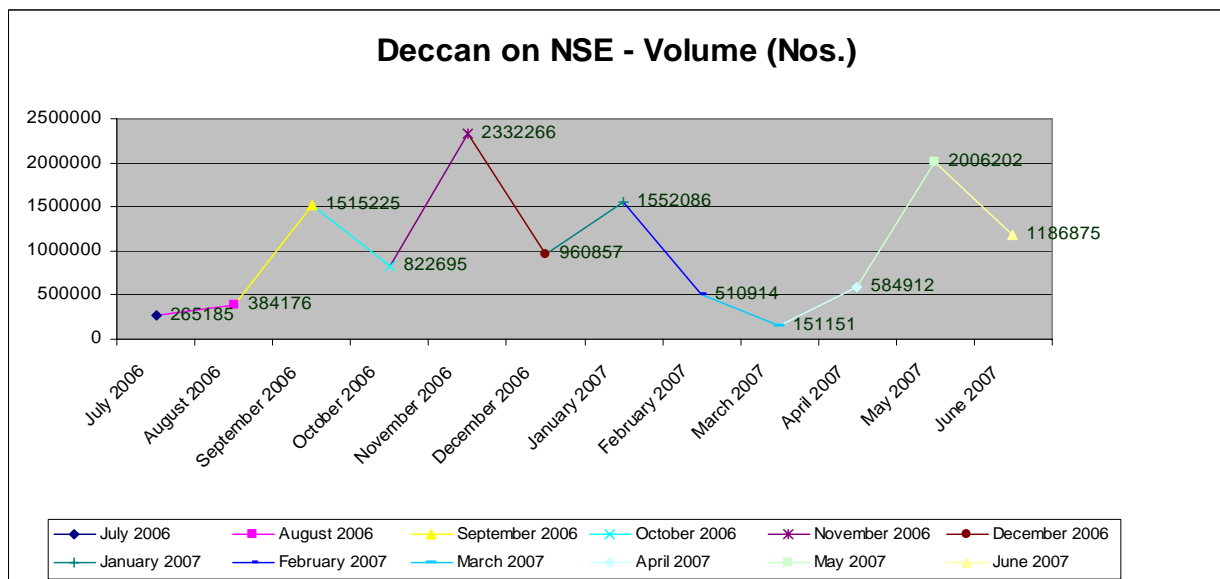
TWELFTH ANNUAL REPORT 2006-2007

The Company's performance for the period from 1st July, 2006 to 30th June, 2007 vis-à-vis BSE Sensex

AIR DECCAN vis-à-vis BSE



AIR DECCAN vis-à-vis NSE



Registrar and Share Transfer Agents(RTA)

M/s. Karvy Computershare Private Limited are the Registrar and Share Transfer Agents of the Company. Their address is:

'Karvy House', 46 Avenue 4,

Street No. 1, Banjara Hills

Hyderabad – 500 034

Tel:(91-40) 23312454 /23326591/ 23320751-52

Fax : (91-40) 23311968/23323049

Email : www.karvy.com

TWELFTH ANNUAL REPORT 2006-2007

Investors may correspond with the Compliance Officer of the Company Mr. N Srivatsa at the Registered Office of the Company or with the Registrar & Transfer Agents of the Company.

Share Transfer System

The shares of the Company are traded on the stock exchanges through the Depository system. The Demat ISIN in National Securities Depository Limited (NSDL) and Central Depository Services (India) Limited (CDSL) is INE438H01019. All requests received by the Company/ RTA for Dematerialisation/Re-materialisation/ transfer are disposed off expeditiously. Share Certificates duly endorsed are issued/ transferred to all those shareholders, who opt for shares in the physical form.

Distribution of shareholding by number of shares held as on 30th June, 2007

Equity Shares held	Shareholders	Shares held	% of Holdings
1 - 5000	51707	6026247	95.96
5001 - 10000	1130	933374	2.09
10001 - 20000	460	723548	0.85
20001 - 30000	156	401005	0.28
30001 - 40000	59	212666	0.11
40001 - 50000	81	386321	0.15
50001 - 100000	122	914814	0.23
100001 & Above	167	125872143	0.31
Total	53882	135470118	100

Shareholding Pattern as on 30th June, 2007

Sr.No.	Category	Shares held	% of Holdings
1.	*Promoters	22162500	16.36
2.	Directors & Relatives	911850	0.67
3.	Mutual Funds/ UTI/Financial Institutions/ Banks/ Insurance	10133670	7.48
4.	Venture Capital Funds	9999206	7.38
5.	Foreign Institutional Investors	7877356	5.81
6.	*Bodies Corporate	64454566	47.58
7.	Indian Public & Trusts	12502118	9.23
8.	NRI/FNs/OCBs	5465212	4.03
9.	Foreign Bank	1963640	1.45
	Total	135470118	100

Note:

* Kingfisher Radio Limited, a UB Group Company has acquired 26% in the share capital of the Company and 35222231 equity shares of Rs.10/- each were allotted to them on 30th June,

TWELFTH ANNUAL REPORT 2006-2007

2007. Consequently, in terms of the Subscription and Shareholders Agreement dated 26th June, 2007 Kingfisher Radio Limited (KRL) and or any other person including (UB Overseas Limited nominated by KRL) to subscribe to the investment shares and/or to acquire open offer shares in accordance with the terms of the agreement and United Breweries (Holdings) Limited (UBHL) and any transferee being member of the UB Group, collectively referred to as the Investor Group are to be acknowledged as Co-Promoters of the Company. However, the said shareholding of KRL amounting to 26% is reflected in the above table in Bodies Corporate as on 30th June, 2007 in anticipation of the resolution of the Board of Directors acknowledging the Investor Group as Co- Promoters.

Percentage of Shares held in Physical & Electronic Form as on 30th June, 2007

S.No.	Category	Holders	Total Shares	% To Equity
1.	Physical	30	72211013	53.30
2.	NSDL	42625	56186233	41.48
3.	CDSL	11227	7072872	5.22
	Total	53882	135470118	100.00

Outstanding GDRs/ADRs/Warrants or any convertible instruments, conversion date and likely impact on equity

The Company has no GDRs/ADRs/Warrants or any convertible instruments.

Insider Trading

All the Directors and Senior Management Personnel have affirmed compliance of The Code of Corporate Disclosure for prevention of Insider Trading and Rules for dealing in the securities of Deccan Aviation Limited by an Insider as suggested under the SEBI(Prohibition of Insider Trading) Regulations, 1992 and have executed Indemnity Bonds thereof, individually.

Address for Correspondence:

Deccan Aviation Limited
35/2, Cunningham Road, Bangalore 560 052
Tel.:9180-41148190-99
Fax :91-80-22352645/41148849
Web Site Address – www.flyairdeccan.net
Email: companysecretary@airdeccan.net

Directors' Responsibility Statement

The Directors' Responsibility Statement in conformity with the requirement of the Companies Act, 1956 has been included in the Directors' Report to the Shareholders, A Management Discussion and Analysis Report in terms of item IV(F) of Clause 49 of the Listing Agreement has been annexed to the Directors' Report.

The financial accounts are in full conformity with the requirements of the Companies Act, 1956. These accounts reflect the form and substance of transactions and present a true and fair view of the Company's financial condition and the results of operations.

The Company has a system of internal control which is reviewed, evaluated and updated on an ongoing basis. The Internal Auditors have conducted periodic audit of systems and

TWELFTH ANNUAL REPORT 2006-2007

procedures to provide reasonable assurance that the activities are conducted in a manner not prejudicial to the interests of the Company.

The financial statements have been audited by M/s, B K Ramadhyan & Co., Chartered Accountants and have been reviewed by and discussed in the Audit Committee.

Information pursuant to Clause 49(IV)(G)(i)(C) of the Listing Agreement

The details required under Clause 49(IV)(G)(i)(C) of the Listing Agreement are given in the notice convening the meeting.

TWELFTH ANNUAL REPORT 2006-2007

Declaration by the Managing Director on Compliance with the Code of Conduct

The Company has formulated and implemented the Code of Conduct for the Directors and also for the Senior Management Personnel of the Company, which have been posted on the website of the Company. All the Directors and Senior Management Personnel have affirmed compliance with the Code.

I hereby declare that all the Directors and Senior Management Personnel have affirmed compliance of the aforesaid Code of Conduct of the Company as of 30th June, 2007 and a confirmation to that effect has been given by each of them.

Bangalore
27th September, 2007

Capt G R Gopinath
Managing Director

Certificate of the Practising Company Secretary in respect of compliance of Corporate Governance

To,
The Members of Deccan Aviation Limited
Bangalore

I have examined the compliance of conditions of Corporate Governance by Deccan Aviation Limited for the year ended 30th June, 2007 as stipulated in Clause 49 of the Listing Agreement of the said Company with the Stock Exchanges.

The compliance of the conditions of corporate governance is the responsibility of the management. My examination was limited to procedures and implementation thereof adopted by the Company for ensuring the compliance with the conditions of Corporate Governance as stipulated in the above-mentioned Listing Agreement.

I further state that such compliance is neither an assurance as to the future viability of the Company nor the efficiency or effectiveness with which the management has conducted the affairs of the Company.

Bangalore
27th September, 2007

G. Krishna
Company Secretary
Membership No. ACS-9716
CP-5793

TWELFTH ANNUAL REPORT 2006-2007

CERTIFICATION BY CHIEF EXECUTIVE OFFICER AND CHIEF FINANCIAL OFFICER OF DECCAN AVIATION LIMITED

We, Capt. G R Gopinath, Managing Director (CEO) and Mr. Ramki Sundaram Chief Financial Officer (CFO) of Deccan Aviation Limited (the Company), to the best of our knowledge and belief certify that:

1. We have reviewed the Balance Sheet and Profit and Loss Account and all its Schedules and Notes on Accounts, as well as the Cash Flow Statement and Directors' Report:
 - a. based on our knowledge and information, these statements do not contain any untrue statement of a material fact or omit any material fact or contain statements that might be misleading.
 - b. these statements together present a true and fair view of the Company's affairs and are in compliance with existing accounting standards, applicable laws and regulations.
2. We also certify that, based on our knowledge and the information provided to us, there are no transactions entered into by Deccan Aviation Limited, which are fraudulent, illegal or in violation of the Company's Code of Conduct.
3. We are responsible for establishing and maintaining internal controls and procedures for the Company pertaining to financial reporting and have evaluated the effectiveness of these procedures in Deccan Aviation Limited. We have disclosed to the auditors and the Audit Committee, deficiencies, if any, in the design or operation of such internal controls, of which we are aware and the steps that we have taken or propose to take to rectify these deficiencies.
4. We have disclosed, based on our most recent evaluation, wherever applicable, to the Company's Auditors and the Audit Committee of the Company's Board of Directors:-
 - a. Significant changes in internal controls during the year.
 - b. Significant changes in accounting policies during the year and that the same have been disclosed in the Notes to the financial statements; and
 - c. Instances, if any, of significant fraud of which we have become aware and the involvement therein, if any, of the Management or an employee having a significant role in the Company's internal control system.
5. We affirm that we have not denied any personnel, access to the Audit Committee of the Company (in respect of matters involving misconduct, if any).
6. We further declare that all Board members and Senior Management have affirmed compliance with the Code of Conduct for the period June 2006 to July 2007.

Bangalore
27th September, 2007

Sd/-
Capt G R Gopinath
Managing Director & CEO

Sd/-
Ramki Sundaram
Chief Financial Officer

AUDITORS' REPORT TO THE MEMBERS OF DECCAN AVIATION LIMITED

1. We have audited the attached Balance Sheet of Deccan Aviation Limited ("Company") as at June 30, 2007, the Profit and Loss Account and the Cash Flow Statement for the year ended on that date, annexed thereto. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.
2. We conducted our audit in accordance with auditing standards generally accepted in India. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.
3. 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 Companies Act, 1956 ("the Act"), as amended by the Companies (Auditor's Report) (Amendment) Order, 2004 (herein after collectively referred to as the "Order") we enclose in the annexure a statement on matters specified in paragraphs 4 and 5 of the Order.
4. *The previous auditors' in their report dated September 22, 2006, on the financial statements for the fifteen months ended June 30, 2006, reported that adjustments to inventories of rotables, stores, spares and components made in the financial statements for the fifteen months ended June 30, 2006 as may pertain to the year ended March 31, 2005 was not ascertainable. In their report dated September 20, 2005 on the financial statements for the year ended March 31, 2005, they reported that they were unable to verify the valuation of inventories of rotables, stores, spares and components of Rs.297,244,615 of one of the divisions as estimated by the management as at March 31, 2005, pending reconciliation of the stock ledger with the financial records and the consequential updation of the stock ledger. However, this has no impact on the working results for the year 2006-07 and the state of affairs of the Company as at June 30, 2007.*
5. *The working results for the year ended June 30, 2007 are after charging off sums of Rs.86,443,502 and Rs.16,358,447 towards amortization of training and preoperative expenses respectively based on the Company's accounting policy of amortizing the said expenditure over a period of 3 years. The corresponding amounts for the fifteen months ended June 30, 2006 were Rs.105,250,399 and Rs.20,717,733 respectively. We are of the opinion that such accounting treatment is not in accordance with (AS) 26 on "Intangible Assets" issued by the Institute of Chartered Accountants of India and such expenses are required to be written off to the profit and loss account as and when incurred. This matter also caused the previous auditors to modify their audit opinion on the financial statements for the fifteen months ended June 30, 2006. Such unamortized training and preoperative expenses as at June 30, 2007 are Rs. 28,270,478 (June 30, 2006 Rs 114,713,980) and Rs. 2,628,571 (June 30, 2006 Rs 21,238,741) respectively.*

6 *Other Income for the fifteen months ended June 30, 2006 included a sum of Rs.267,220,000 towards certain subsidy provided to the Company by one of its suppliers in conjunction with lease of aircrafts on operating lease basis. The previous auditors had reported that they were of the opinion that such accounting treatment was not in accordance with Accounting Standard (AS) 19-Accounting for lease issued by the Institute of Chartered Accountants of India (ICAI) and the subsidy should be recorded on a straight-line basis over the period of the lease. Their audit report on the financial statements for the fifteen months ended June 30, 2006 was modified in this matter. We concur with the views of the said auditors in principle that such subsidy should be recognized on a systematic basis in the Profit and Loss Account over the periods necessary to match them with the related costs, which they are intended to compensate although the matter does not appear to be covered explicitly by the said AS 19.*

7 Other Income for the year ended June 30, 2007 includes a sum of Rs.224,675,000 towards lease subsidy provided to the Company by one of its suppliers in the aim of supporting the former in the leasing of new aircrafts of a certain make. The corresponding amount for the fifteen months ended June 30, 2006 is Rs.223,050,000 respectively. The management has adduced the following reasons in support of the accounting treatment followed by it: -

- a) General subsidies by aircraft suppliers towards supporting the Company's fleet expansion are to be treated as income.
- b) The relevant subsidies received are not in any way linked to the Company taking specific aircrafts on lease basis.
- c) The relevant subsidies are not refundable to the said supplier even if the Company does not take any aircrafts on lease or in the event of termination of agreements in respect of any aircrafts that it may have taken on lease.
- d) The Company's entitlement to the said subsidy accrues based on timelines given in the agreement and is not in any way linked to the Company taking aircrafts on lease.
- e) The Company is contingently liable to refund the said amounts to the said supplier in the event of the principal supply agreement being terminated in accordance with certain clauses of the said agreement. Management believes that the probability of such termination as of date is remote.

The previous statutory auditors had opined that such subsidy should be deferred and accounted for appropriately at a future date and their audit report on the financial statements for the fifteen months ended June 30, 2006 was modified in the matter.

On an overall appreciation of the relevant agreements, we concur with the accounting treatment adopted by the Company expressly relying on the representations of the management that the probability of termination of the said principal supply agreement is remote as of date. This aspect would need to be validated on every reporting date till all obligations under the said agreement are fulfilled.

8. *We further report that, except for the effect, if any, of the matters stated in para 4 of the annexure, which is not ascertainable, had the observations made in paragraphs 5 and 6 above been considered, the loss after tax for the year ended June 30, 2007 would have been Rs.4,045,462,521 (June 30, 2006 – Rs.3,755,985,815) as against the reported loss of Rs.4,195,761,016 (June 30, 2006, – Rs. 3,405,471,325), the debit balance in profit and loss account as at June 30, 2007 would have been Rs.8,021,206,714 (June 30, 2006 – Rs.4,201,585,733) as against a reported figure of Rs.7,786,542,943 (June 30, 2006 – Rs.3,590,781,927), deferred revenue expenses as at June 30, 2007 would have been Rs.256,624,965 (June 30, 2006 – Rs. 254,797,789) as against the reported figure of Rs.287,524,014 (June 30, 2006 – Rs.390,750,510) and other liabilities would have been Rs.982,925,507 (June 30, 2006 – Rs.698,798,482) as against the reported figure of Rs.779,160,785 (June 30, 2006 – Rs.208,528,482). The data stated in this paragraph have been worked out, without considering the effect of the matter referred to in para 7 above in respect of which the previous auditors had modified their opinion vide their report dated September 22, 2006.*
9. Further to our comments in the annexure referred to above, we report that:
- a. We have obtained all the information and explanations, which to the best of our knowledge and belief were necessary for the purpose of our audit.
 - b. In our opinion, the Company has kept proper books of account as required by Law so far as appears from our examination of those books.
 - c. The Balance Sheet, Profit and Loss Account and Cash Flow Statement dealt with by this report are in agreement with the books of account.
 - d. In our opinion, *except for the effect of the matters stated in para 5 above*, the Balance Sheet, Profit & Loss Account and Cash Flow Statement dealt with by this report comply in all material respects, with the mandatory Accounting Standards referred to in sub-section (3C) of section 211 of the Act.
 - e. On the basis of written representations received from Directors as on June 30, 2007 and taken on record by the Board of Directors, we report that none of the Directors of the Company, are disqualified as on June 30, 2007 from being appointed as a director, under clause (g) of sub-section (1) of section 274 of the Act.
 - f. Without qualifying our opinion, we draw attention to note 14 of schedule 21, regarding purchase of goods and services during the period ended June 30, 2006 and year ended March 31, 2005 amounting to Rs. 4,286,665 respectively from certain parties and payment of salaries of Rs. 3,249,498 (including Rs.1,855,037 for the year ended June 30, 2007) to a relative of a director of the Company in respect of which the approval of the Central Government as required under sections 297 and 314 of the Act are yet to be received.
 - g. In our opinion and to the best of our knowledge and according to the information and explanations given to us, *except for the effect of the matters stated in paras 5 and 6 above and our observations in para 4 of the annexure*, the said accounts 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
 - i. In the case of the Balance Sheet, of the state of affairs of the Company as at June 30, 2007;

- ii. In the case of Profit and Loss Account, of the loss for the year ended on that date; and
- iii. In the case of Cash Flow Statement, of the cash flows for the year ended on that date

For B.K.RAMADHYANI & CO
Chartered Accountants

Sd/-

(R. Satyanarayana Murthi)
Partner
Membership No.200/24248

Date: September 27, 2007
Place: Bangalore

ANNEXURE TO THE AUDITORS' REPORT
(AS REFERRED TO IN PARAGRAPH 3 OF OUR REPORT OF EVEN DATE TO
THE MEMBERS OF DECCAN AVIATION LIMITED, BANGALORE).

1.
 - a. The Company has maintained proper records showing full particulars including quantitative details and situation of fixed assets.
 - b. We have been informed that a portion of the fixed assets have been physically verified by the management during the year in accordance with a phased program and that no material discrepancies were observed on such verification.
 - c. There was no substantial disposal of fixed assets during the year.
2.
 - a. The management has conducted physical verification of inventory at reasonable intervals during the period.
 - b. The procedures of physical verification of inventories followed by the management are reasonable and adequate in relation to the size of the Company and the nature of its business.
 - c. No material discrepancies were noticed on physical verification.
3.
 - a. As informed, the Company not granted any loans, secured or unsecured to companies, firms or other parties covered in the register maintained under section 301 of the Act.
 - b. As informed, the Company not taken any loans, secured or unsecured to companies, firms or other parties covered in the register maintained under section 301 of the Act.
4. In our opinion and according to the information and explanation given to us, and taking into consideration management's representation that a large number of items are of a special nature for which alternative quotations cannot be obtained, there are adequate internal control procedures commensurate with the size of the Company and the nature of its business for the purchases of inventory and fixed assets and for the sale of services, *except that the reconciliation process between the ticket reservation system and the credit card statements need to be further improved.* During the course of our audit, no continuing failure to correct major weakness in internal controls has been noticed.
5. According to the information and explanations provided by the management, we are of the opinion that there are no contracts or arrangements referred to in section 301 of the Act that need to be entered into the register maintained under the said section.
6. The Company has not accepted any deposits from the public.
7. The Company has an internal audit system commensurate with the size and nature of its business.
8. To the best of our knowledge and as explained, the Central Government has not prescribed the maintenance of cost records under section 209(1)(d) of the Act for the products of the Company.
9.
 - a. *Undisputed statutory dues in respect of service tax, withholding taxes, provident fund, fringe benefit tax and employees' state insurance dues have not been regularly deposited with the appropriate authorities, and there have been delays in certain cases.* Undisputed statutory dues in respect of investor education and

protection fund, customs, excise duty, cess and wealth tax as applicable, have generally been regularly deposited with the appropriate authorities.

- b. According to the information and explanations given to us, there are no undisputed amounts payable as at the year end in respect of provident fund, employees' state insurance, investor education and protection fund, income tax, wealth tax, sales tax, customs duty, excise duty and cess for a period of more than six months from the date they became payable. *Undisputed statutory dues payable on account of service tax as at the year end for a period of more than six months from the date they became payable is detailed below:-*

<i>Period to which dues relate</i>	<i>Amount (Rs.)</i>
<i>2004-05</i>	<i>1,131,564</i>
<i>2005-06</i>	<i>6,046,611</i>
<i>2006-07</i>	<i>3,879,379</i>
<i>Total</i>	<i>11,057,554</i>

Management has informed us that out of the above, an aggregate sum of Rs. 9,307,402 has been paid subsequent to June 30, 2007.

- c. According to the information and explanations given to us, there are no dues of sales tax, wealth tax, service tax, customs duty, excise duty and cess, which have not been deposited on account of any dispute.
10. *The Company's accumulated losses at the end of the financial period are more than fifty percent of its net worth. The Company has incurred cash losses during the financial year and in the immediately preceding financial year.*
11. Based on our audit procedures and as per the information and explanations given by the management, the Company has not defaulted in repayment of loans to banks and financial institutions except that there was unpaid overdue interest to banks of Rs.50,303,165 as at 30 June, 2007. We understand that the relevant banks have not debited the same to the respective current accounts held by the Company with them. There were no dues payable to the debenture holders.
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. Accordingly, the provisions of the clause 4(xii) of the Order are not applicable to the Company
13. In our opinion, the Company is not a chit fund or a nidhi, mutual benefit fund/society. Accordingly, the provisions of the clause 4(xiii) of the Order are not applicable to the Company.
14. In our opinion, the Company is not dealing in or trading in shares, securities, debentures and other investments. Accordingly, the provisions of clause 4(xiv) of the Order are not applicable to the Company.
15. According to the information and explanations given to us, the Company has not given guarantees during the year for loans taken by others from banks or financial institutions. Accordingly, the provisions of clause 4(xv) of the Order are not applicable to the Company.

16. Based on information and explanations given to us by the management, term loans taken during the year have been applied for the purpose for which they were obtained.
17. According to the information and explanations given to us and on an overall examination of the balance sheet of the Company, we report that no funds raised on short- term basis have been used for long term investment.
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 Act. Accordingly, the provisions of clause 4(xviii) of the Order are not applicable to the Company.
19. There were no debentures outstanding at any time during the year. Accordingly, the provisions of clause 4(xix) of the Order are not applicable to the Company
20. We have verified the end use of money raised by public issue during the period ended June 30, 2006 and incurred during the year and the same has been disclosed in the notes to the financial statements.
21. As per the information and explanations furnished to us by the management, no material frauds on or by the Company and causing material misstatements to financial statements have been noticed or reported during the course of our audit.

For B.K.RAMADHYANI & CO
Chartered Accountants

Sd/-

(R. Satyanarayana Murthi)
Partner
Membership No.200/24248

B K Ramadhyani & Co.
Chartered Accountants
4B, Chitrapur Bhavan
No.68, 8th Main, 15th Cross
Malleswaram,
Bangalore – 560 055

Date: September 27, 2007

Deccan Aviation Limited
Balance Sheet as at June 30th, 2007

	Schedule	As at June 30, 2007 (Rs)	As at June 30, 2006 (Rs)
SOURCES OF FUNDS			
Shareholders' Funds			
Capital	1	1,354,701,180	981,820,070
Employee stock options outstanding (Net of deferred compensation cost)		110,136,854	75,846,106
Reserves and surplus	2	10,168,677,178	4,774,482,830
		<u>11,633,515,212</u>	<u>5,832,149,006</u>
Loan Funds			
Secured loans	3	7,167,092,683	4,481,607,146
Unsecured loans	4	2,000,000,000	35,000,000
		<u>9,167,092,683</u>	<u>4,516,607,146</u>
TOTAL		<u><u>20,800,607,895</u></u>	<u><u>10,348,756,152</u></u>
APPLICATION OF FUNDS			
Fixed Assets			
Gross block	5	3,407,716,142	2,473,320,252
Less: Accumulated depreciation		337,407,915	164,012,632
Net block		<u>3,070,308,227</u>	<u>2,309,307,620</u>
Capital work in progress including capital advances		3,576,198,612	2,865,323,324
		<u>6,646,506,839</u>	<u>5,174,630,944</u>
Investments			
	6	4,135,370	4,135,370
Current Assets, Loans and Advances			
Inventories	7	616,226,308	572,644,281
Sundry debtors	8	352,422,874	130,637,512
Cash and bank balances	9	8,170,495,277	2,564,747,197
Loans and advances	10	1,339,855,286	1,522,517,664
Other current assets	11	157,757,303	151,274,199
		<u>10,636,757,048</u>	<u>4,941,820,853</u>
Less: Current Liabilities and Provisions			
Current liabilities	12	4,491,461,800	3,694,048,780
Provisions	13	69,397,055	59,317,361
		<u>4,560,858,855</u>	<u>3,753,366,141</u>
Net current assets		6,075,898,193	1,188,454,712
Miscellaneous Expenditure (to the extent not written off or adjusted)			
Deferred revenue expenditure	14	287,524,014	390,750,510
Preliminary expenses	15	537	2,689
		<u>287,524,551</u>	<u>390,753,199</u>
Profit and Loss Account			
		7,786,542,943	3,590,781,927
TOTAL		<u><u>20,800,607,895</u></u>	<u><u>10,348,756,152</u></u>
Notes to Accounts	21		

The schedules referred to above and notes to accounts form an integral part of the Balance Sheet

As per our report of even date

For B.K.Ramadhyan & Co.,
Chartered Accountants

For and on behalf of the Board of Directors

per Satyanarayana Murthi
Partner
Membership No. 200/24248

Capt. G. R. Gopinath
Managing Director

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

Bangalore
27th September, 2007

Ramki Sundaram
Chief Financial Officer

N Srivatsa
Company Secretary

Deccan Aviation Limited
Profit and Loss account for the year ended June 30, 2007

	Schedule	For the year ended June 30, 2007 (Rs.)	For the 15 months period ended June 30, 2006 (Rs.)
INCOME			
Sale of airline tickets and related income (Refer note 12 in Schedule 21)		17,098,334,754	11,725,780,982
Helicopter charter and other services		647,140,606	638,164,248
Other income	16	3,677,613,451	1,154,114,741
Total		21,423,088,811	13,518,059,971
EXPENDITURE			
Direct operating expenses	17	20,732,387,345	13,474,675,644
Personnel, administrative and general expenses	18	3,610,981,951	2,586,721,433
Employee stock compensation cost		40,728,801	75,846,106
Advertisement and business promotion expenses		137,610,147	106,473,858
Finance and banking charges	19	623,981,221	319,546,616
Amortisation of deferred revenue expenditure	20	262,482,038	189,353,290
Depreciation	5	176,688,023	133,436,723
Preliminary expenses written off		2,152	3,763
Total		25,584,861,678	16,886,057,433
Loss before taxation		(4,161,772,867)	(3,367,997,462)
Provision for Fringe benefit tax		33,988,149	37,473,863
Net Loss for the year / period		(4,195,761,016)	(3,405,471,325)
Balance brought forward from previous year		(3,590,781,927)	(185,310,602)
Balance carried to Balance Sheet		(7,786,542,943)	(3,590,781,927)
Loss per share (par value of Rs 10 per share)			
Basic and diluted		(42.24)	(68.24)
Weighted average number of equity shares - basic and diluted (Refer note 22 of Schedule 21)		99,326,445	49,904,959

Notes to Accounts 21

The schedules referred to above and notes to accounts form an integral part of the Profit & Loss Account.

As per our report of even date.

For B.K.Ramadhyan & Co.,
Chartered Accountants

For and on behalf of the Board of Directors

per Satyanarayana Murthi
Partner
Membership No. 200/24248

Capt. G. R. Gopinath
Managing Director

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

Bangalore
27th September, 2007

Ramki Sundaram
Chief Financial Officer

N Srivatsa
Company Secretary

Deccan Aviation Limited
Schedules to the Balance Sheet as at June 30th, 2007

	As at Jun 30, 2007 (Rs)	As at June 30, 2006 (Rs)
Schedule 1: Capital		
<u>Authorised capital</u>		
150,000,000 equity shares of Rs. 10/- each (June 30th, 2006 - 125,000,000 equity shares of Rs. 10/- each)	1,500,000,000	1,250,000,000
<u>Issued and subscribed capital</u>		
13,54,70,118 equity shares of Rs. 10/- each (June 30th, 2006 - 98,182,007 equity shares of Rs. 10/- each)	1,354,701,180	981,820,070
<u>Paid up capital</u>		
13,54,70,118 equity shares of Rs. 10/- each (June 30th, 2006 - 98,182,007 equity shares of Rs. 10/- each)	1,354,701,180	981,820,070
	1,354,701,180	981,820,070

Notes:

- (1) Out of the above, 27,284,390 equity shares of Rs. 10/- each (June 30th, 2006 - 27,284,390 equity shares of Rs. 10/- each) have been allotted as fully paid up bonus shares by capitalisation of securities premium of Rs 253,750,200 (June 30th, 2006 - Rs 253,750,200) and balance in Profit & Loss Account of Rs 19,093,700 (June 30, 2006 - Rs 19,093,700)
- (2) Also refer note 3 and note 17 in Schedule 21

Schedule 2: Reserves and Surplus

Securities premium account		
Balance at the beginning of the year/period	4,774,482,830	159,876,100
Add: Received during the year/period	5,394,194,348	4,766,554,630
Less: Issuance of bonus shares during the year/ period	-	(151,947,900)
	10,168,677,178	4,774,482,830

Note:

- (1) Also refer note 3 in schedule 21

Schedule 3: Secured Loans

Term loans from banks (Rupee loans)	1,797,654,960	1,590,646,696
Cash credit facility from banks	1,869,104,516	282,655,038
Short Term loans from banks	1,526,360,863	250,000,000
Vehicle loans from banks/financial institutions	16,320,442	7,030,500
Interest accrued and due on term loans	50,303,165	14,618,334
Finance lease obligations	22,408,143	39,167,284
Hire purchase loan from others	1,142,869,803	2,118,902,524
Term loans from financial institutions and Others	742,070,791	178,586,770
	7,167,092,683	4,481,607,146

Notes:

- (1) Term loans from banks and cash credit facility from banks are secured by a first charge on the current assets and fixed assets of the Company, including hypothecation of the present and future goods and including book debts, and documents of title to goods and collateral security of personal property of relative of directors.
- Further, Term loans of Rs. 1,720,642,423 (June 30, 2006 - Rs. 1,310,280,648) are secured by the assignment of the aircraft purchase agreement entered into for purchase of aircraft and by personal guarantee of directors.
- (2) Short term loans from banks during the year are secured by lien on fixed deposits and during the previous year secured by first charge on all stock in trade both present and future and all the present and future book debts of the company.
- (3) Vehicle loans are secured by the hypothecation of the respective assets.
- (4) Finance lease is secured by the hypothecation of the respective assets.
- (5) Hire purchase loans are secured by the hypothecation of the respective assets. Also refer note 19 in schedule 21.
- (6) Term loan of Rs. 671,017,797 from a financial company is secured by the hypothecation of the aircraft and helicopter, assignment of documents of title to such asset and personal guarantee of one of the directors.
- (7) Term loan (foreign currency) of Rs. 71,052,994 from a financial institution is secured by a second priority on the mortgage of the aircraft obtained on hire purchase.
- (8) Amounts repayable within one year Rs 1,695,569,439 (June 30, 2006 - Rs 1,703,285,900).

Schedule 4: Unsecured Loans

Short term loans- Banks	2,000,000,000	
Short term loans- others	-	35,000,000
	2,000,000,000	35,000,000

Deccan Aviation Limited
Schedules to the Balance Sheet as at June 30th, 2007

	As at Jun 30, 2007 (Rs)	As at June 30, 2006 (Rs)
Schedule 6: Investments		
Long Term (At cost)		
Trade (unquoted), fully paid up		
960,000 (June 30, 2006 - 960,000) equity shares of Srilankan Rupees.10/- each fully paid up in Deccan Aviation (Lanka) Private Limited	4,134,870	4,134,870
Others (unquoted)		
National savings certificate	500	500
	4,135,370	4,135,370
Schedule 7: Inventories		
(At cost or net realisable value, whichever is lower)		
Rotables, stores, spares and components	616,226,308	572,644,281
	616,226,308	572,644,281
Schedule 8: Sundry Debtors		
(Unsecured)		
Debts outstanding for a period exceeding six months		
- Considered good	9,333,707	23,793,798
- Considered doubtful	17,605,011	8,500,000
Other debts, considered good	343,089,167	106,843,714
Less: Provision for doubtful debts	(17,605,011)	(8,500,000)
	352,422,874	130,637,512
Schedule 9: Cash and Bank Balances		
Cash on hand	2,270,147	1,320,906
<u>Bank balances with scheduled banks</u>		
-In current accounts	4,218,239,196	1,810,340,138
-In fixed deposit accounts	3,629,004,782	595,000,000
-Margin money deposit against bank guarantees and letters of credit issued by banks	320,981,152	158,086,153
	8,170,495,277	2,564,747,197
Schedule 10: Loans and Advances		
(Unsecured - considered good)		
Advances recoverable in cash or in kind or for value to be received	1,033,519,834	443,137,294
Deposits with government bodies, customs authorities and others	133,589,146	104,353,007
Advance income taxes, net of provisions	25,401,622	12,693,443
Other receivables	10,688,680	948,808,220
Dues from directors		179,458
Interest accrued on fixed deposits	128,429,757	9,450,321
Dues from Deccan Aviation (Lanka) Private Limited	8,226,247	3,895,921
[Maximum amount outstanding - Rs. 8,226,247 during the period (June 30, 2006 - Rs. 3,895,921)]		
	1,339,855,286	1,522,517,664

Note:

(1) Advances recoverable in cash or in kind include Rs.1,680,000 due from Deccan Aviation Turbine Overhaul Private Limited, a private company in which a director of the company is interested (June 30, 2006 - Rs.1,680,000). Maximum amount outstanding Rs.1,680,000 (June 30, 2006 Rs.1,680,000)

(2) Advances recoverable in cash or in kind include Rs.6,918,109 due from Deccan Cargo Pvt Ltd., a private limited company in which some of the directors of the company are interested as directors. Maximum amount outstanding Rs.6,918,109

(3) Maximum amount due at any point of time from directors Rs.179,458 (June 30, 2006 Rs.255,854)

Deccan Aviation Limited
Schedules to the Balance Sheet as at June 30th, 2007

	As at Jun 30, 2007 (Rs)	As at June 30, 2006 (Rs)
Schedule 11 : Other Current Assets		
Other assets	157,757,303	151,274,199
	157,757,303	151,274,199

Schedule 12: Current Liabilities

Sundry creditors for goods, services and expenses (Also see note 31 in Schedule 21)

	2,187,179,520	2,163,470,205
Advances from customers	1,235,701,252	862,501,747
Training deposits, net of training expenses incurred (1)	195,600,828	158,917,651
Other security deposit	20,000,000	20,000,000
Book overdraft		265,672,119
Unclaimed dividend	707,912	707,912
Dues to Directors	14,437	
Interest accrued but not due on loans	73,097,066	14,250,664
Other liabilities	779,160,785	208,528,482
	4,491,461,800	3,694,048,780

Notes:

(1) Training deposits are net of training expenses incurred amounting to Rs.225,580,872 (June 30, 2006 - Rs. 198,373,156), less amortised during the year Rs 67,528,046 (June 30, 2006 - Rs. 47,465,043) as at June 30, 2007.

Schedule 13: Provisions

Provision for wealth tax	64,000	-
Provision for fringe benefit tax	11,714,850	23,382,338
Provision for gratuity	35,115,726	20,431,521
Provision for leave encashment	22,502,479	15,503,502
	69,397,055	59,317,361

Schedule 14: Deferred Revenue Expenditure

Training expenses	243,442,624	243,442,624
Preoperative expenses	48,933,164	51,184,887
Share/debenture issue expenditure	363,326,170	271,124,246
Less: Accumulated amortisation - Training Expenses	(215,172,146)	(128,728,644)
Less: Accumulated amortisation - Preoperative Expenses	(46,304,593)	(29,946,146)
Less: Accumulated amortisation - Share / debenture issue expenditure	(106,701,205)	(16,326,457)
	-	-
	287,524,014	390,750,510

Schedule 15: Preliminary Expenses

Opening balance	2,689	6,452
Less : Accumulated amortisation	2,152	3,763
	537	2,689

Deccan Aviation Limited

Schedules to the Balance Sheet as at June 30th, 2007

Schedule - 5 : Fixed Assets

Amount in Rs.

	Gross Block				Depreciation				Net Block	
	As on 01 July 2006	Additions during the year	Deletions during the year	As on 30th June 2007	As on 01 July 2006	Additions during the year	Deletions during the year	As on 30th June 2007	As on 30th June-07	As on 30th June-06
Tangible assets										
Land - Freehold	501,059	0		501,059	0	0		0	501,059	501,059
Building on rented land	18,378,540	0		18,378,540	1,643,486	299,207		1,942,693	16,435,847	16,735,054
Building on freehold land	4,201,780	0		4,201,780	297,535	68,488		366,023	3,835,757	3,904,245
Building- leasehold improvements	19,254,393	21,364,404		40,618,797	321,805	5,640,118		5,961,924	34,656,873	18,932,588
Improvements to leased aircrafts	38,721,778	0		38,721,778	13,875,676	7,718,669		21,594,345	17,127,433	24,846,102
Aircraft	1,575,698,626	528,030,960		2,103,729,586	51,163,912	95,985,575		147,149,487	1,956,580,099	1,524,534,714
Plant & Machinery (others)	46,063,280	58,338,805		104,402,085	5,875,038	6,545,987		12,421,025	91,981,060	40,188,242
Plant & Machinery (under finance lease)	66,807,110	0		66,807,110	3,048,159	0		3,048,159	63,758,951	63,758,951
Tools and Equipment	137,940,630	71,709,740		209,650,370	11,260,705	8,781,412		20,042,117	189,608,253	126,679,925
Helicopters	374,134,179	205,697,405	83,016,538	496,815,046	33,763,906	20,178,931	3,285,774	50,657,063	446,157,983	340,370,273
Computers	52,821,795	20,243,368		73,065,163	9,815,941	10,491,038		20,306,979	52,758,184	43,005,853
Office Equipment	57,170,305	23,881,003	16,000	81,035,308	10,957,665	7,585,595	969	18,542,292	62,493,016	46,212,640
Furniture & Fixtures	32,593,719	25,504,406	12,700	58,085,425	8,326,322	3,485,742	5,996	11,806,068	46,279,357	24,267,397
Electrical Installation	5,187,263	9,480,701		14,667,964	718,699	665,985		1,384,684	13,283,280	4,468,564
Vehicles	25,317,421	18,366,983		43,684,404	7,619,154	2,872,479		10,491,633	33,192,771	17,698,267
Intangible assets				0				0		
Software	18,528,375	34,823,352		53,351,727	5,324,627	6,368,796		11,693,423	41,658,304	13,203,748
TOTAL	2,473,320,252	1,017,441,128	83,045,238	3,407,716,142	164,012,632	176,688,023	3,292,739	337,407,915	3,070,308,227	2,309,307,620
Previous Year	552,481,182	2,712,483,917	791,644,847	2,473,320,252	45,220,884	133,436,723	14,644,975	164,012,632		

Notes:

(1) Assets given on operating lease	June 30, 2007	June 30, 2006
	Rs.	Rs.
Helicopters		
Gross Block	11,347,500	11,347,500
Depreciation during the year/ period	635,460	673,758
Accumulated Depreciation	2,091,885	1,456,425
Net Block	9,255,615	9,891,075

(2) Exchange gain/ (loss) (net) capitalised to Fixed assets during the year/ period Rs.88,898,284 (June 30, 2006 Rs.50,239,715)

(3) Additions and deletions to do not include aircraft/ engines in respect of which rights to purchase have been transferred. (Also refer note 16 of Schedule 21)

Deccan Aviation Limited
Schedules to Profit and Loss account for the year ended June 30, 2007

	For the year ended June 30,2007 (Rs.)	For the 15 months ended June 30,2006 (Rs.)
Schedule 16: Other Income		
Advertisement income	11,328,744	12,256,209
Interest on bank deposits (gross)		
[Tax deducted at source Rs. 4,178,138 (June 30, 2006 - Rs 425,708)]	172,455,086	13,636,858
Profit on transfer of aircraft/engine purchase rights [Refer note 16 in Schedule 21]	2,884,623,064	504,267,760
Insurance claims	-	75,057,238
Profit/Loss on Sale/Disposal of Fixed Assets	4,479,468	
Lease rentals received	4,221,360	5,357,584
Foreign exchange gain, net	232,087,992	-
Miscellaneous income (Also refer note 25 in Schedule 21)	368,417,736	543,539,092
	3,677,613,451	1,154,114,741

Schedule 17: Direct Operating Expenses

Aircraft fuel expenses	9,795,000,968	6,254,522,569
Aircraft insurance	367,900,801	300,322,031
Aircraft hire charges	6,025,908	25,408,404
Aircraft/Engine repairs and maintenance	2,274,977,774	1,775,608,235
Spares and components consumed (including amortisation of rotables)	459,417,260	367,277,517
Aircraft/Engine lease rentals	4,030,487,825	2,162,279,656
General crew expenses	41,363,623	38,642,105
Training expenses	120,701,577	84,355,247
Airport related charges	2,979,537,980	1,926,244,886
Ground handling charges	445,831,035	401,516,176
Discount and Commission to agents other than sole selling agents	41,358,779	28,369,665
Other expenses	310,702,885	110,129,153
	20,873,306,415	13,474,675,644
Excess Provision written Back	(140,919,069)	-
	20,732,387,345	13,474,675,644

Schedule 18: Personnel, Administrative and General Expenses

Salaries and allowances	2,437,258,208	1,597,628,550
Contribution to provident and other funds	32,195,797	25,118,978
Staff welfare expenses	7,698,972	7,606,457
Traveling and conveyance	279,874,545	356,446,670
Rent	84,714,663	58,269,033
Rates and taxes	37,144,155	12,236,883
Insurance	18,049,487	9,405,336
Professional and consultancy charges	467,467,093	232,134,791
Repairs and maintenance	-	-
- Machinery	2,441,904	2,672,601
- Building	1,659,136	1,569,625
- Others	17,006,329	12,632,257
Telephone, communication and networking	165,921,584	157,096,045
Miscellaneous expenses	48,952,061	33,809,628
Director's sitting fees	780,000	252,000
Bad debts written off	713,007	3,893,248
Provision for doubtful debts	9,105,011	8,500,000
Foreign exchange loss, net	-	67,449,331
	3,610,981,951	2,586,721,433

Deccan Aviation Limited
Schedules to Profit and Loss account for the year ended June 30, 2007

For the year ended June 30, 2007 (Rs.) **For the 15 months ended June 30, 2006 (Rs.)**

Schedule 19: Finance and Banking Charges

Bank charges (including other related transaction fees)	282,721,606	174,891,022
Interest expense - fixed term loans (also refer note 15 in schedule 21)	315,314,689	129,297,424
Interest expense - others	25,944,926	15,358,170
	623,981,221	319,546,616

Schedule 20: Amortisation

Amortisation of training expenses (1)	153,971,548	152,715,442
Amortisation of preoperative expenses	16,358,447	20,717,733
Amortisation of share/debenture issue expenses	90,374,748	15,920,115
Other Amortisations	1,777,295	-
	262,482,038	189,353,290

Note:

(1) includes Rs 67,528,046 (June 30, 2006 - Rs. 47,465,043), pertaining to training expenses reflected net of deposits under Schedule 12.

Deccan Aviation Limited
Cash Flow Statement for the year ended June 30, 2007

	For the year ended June 30, 2007 (Rs)	For 15 months period ended June, 30 2006 (Rs)
A. Cash flows from operating activities		
Net loss before taxation	(4,161,772,867)	(3,367,997,462)
Adjusted for:		
Depreciation	176,688,023	133,436,723
Provision for wealth tax	64,000	
Loss on transfer of investments		342,930
Employee stock compensation cost	40,728,801	75,846,106
Amortisation	262,482,038	189,353,290
Interest expense	341,259,615	144,655,594
Preliminary expenses written off	2,152	3,763
Insurance claims	-	(75,057,238)
Profit on transfer of aircraft/engine purchase rights	(2,884,623,064)	(504,267,760)
Profit on sale of assets	(4,479,468)	
Interest income	(172,455,086)	(13,636,858)
Provision for Doubtful debts	9,105,011	8,500,000
Sundry balances / Excess Provision written back	-	(28,599,414)
Operating loss before working capital changes	(6,393,000,845)	(3,437,420,326)
Movement in working capital:		
Decrease/(increase) in sundry debtors	(230,890,373)	(56,456,102)
Decrease/(increase) in inventories	(43,582,027)	(208,661,299)
Decrease/(increase) in loans and advances	314,349,993	(954,979,765)
Decrease/(increase) in other current assets	(8,260,399)	(19,351,094)
(Decrease)/increase in current liabilities & provisions	893,928,852	2,899,672,247
Cash (used in)/generated from operations	(5,467,454,799)	(1,777,196,339)
Direct tax paid including fringe benefit tax (net of refunds)	(58,363,817)	(20,897,458)
Net cash (used in)/generated from operating activities	(5,525,818,616)	(1,798,093,797)
B. Cash flows from investing activities		
Purchase of fixed assets and changes in capital work in progress	(1,829,765,711)	(3,967,727,668)
Proceeds from sale/disposal of fixed assets	84,231,967	
Proceeds from transfer of aircrafts/engine purchase rights	2,884,623,064	504,267,760
Interest received	53,475,650	7,859,065
Deferred revenue expenses	2,251,723	(1,631,537)
Net cash used in investing activities	1,194,816,693	(3,457,232,380)
C. Cash flows from financing activities		
Proceeds from issue of share capital	5,760,637,405	4,216,835,302
Share/debenture issue expenses paid	(188,424)	(91,100,000)
Proceeds from term loans (including hire purchase)	1,144,040,756	5,389,616,591
Repayment of term loans (including hire purchase)	(1,251,392,967)	(3,098,155,370)
Change in overdraft facility (including book overdraft & short term loan)	1,010,688,744	450,919,448
Change in cash credit facility	1,586,449,478	273,229,882
Finance lease obligation	(16,759,142)	(25,223,819)
Unsecured Loans received	2,427,500,000	115,000,000
Unsecured Loans repaid	(462,500,000)	(113,000,000)
Interest paid	(261,725,846)	(127,324,641)
Net cash generated from financing activities	9,936,750,004	6,990,797,393
Net change in cash and cash equivalents (A+B+C)	5,605,748,081	1,735,471,216
Cash and cash equivalents at the beginning of the year/period	2,564,747,196	829,275,980
Cash and cash equivalents at the end of the year/period (Note 2 below)	8,170,495,277	2,564,747,196

Notes :

- Assets taken under finance lease - 36,214,185
- Refer Schedule 9 for details of cash and cash equivalents.

For B.K.Ramadhyanani & Co.,
Chartered Accountants

For and on behalf of the Board of Directors

per Satyanarayana Murthi
Partner
Membership No. 200/24248

Capt. G. R. Gopinath
Managing Director
Lt. Gen. (Retd) N.S. Narahari
Chairman

Bangalore
27th September, 2007

Ramki Sundaram
Chief Financial Officer
N Srivatsa
Company Secretary

SCHEDULE- 21

Notes to the financial statements June 30, 2007

1. Background

Deccan Aviation Limited ("the Company") is engaged in rendering scheduled and unscheduled aircraft passenger services, including helicopter charter services. The Company was incorporated on June 15, 1995 as a private limited company and converted itself into a public limited company on January 31, 2005. Consequently the Company changed its name from Deccan Aviation Private Limited to Deccan Aviation Limited. On June 12, 2006 the Company's shares were listed on the Bombay Stock Exchange Ltd and the National Stock Exchange Limited, pursuant to the Company's initial public offer of shares.

2. Statement of significant accounting policies

(a) Basis of preparation

The financial statements have been prepared to comply in all material respects with the mandatory Accounting Standards issued by the Institute of Chartered Accountants of India ("ICAI"). The financial statements have been prepared under the historical cost convention on an accrual basis. The accounting policies have been consistently applied by the Company and are consistent with those used in the period ended June 30, 2006. Further, the financial statements are presented in the general format specified in Schedule VI to the Companies Act 1956 ('the Act').

(b) Use of estimates

The presentation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Although these estimates are based on management's best knowledge of current events and actions the Company may undertake in future, actual results ultimately may differ from the estimates.

(c) Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured. Revenue from charter services is recognised based on services provided and billed as per the terms of the contracts with the customers provided that the collection is reasonably certain. Revenue from sale of tickets of the airline operations is recognised in the period in which the service is provided, i.e. on flown basis. Such revenues include the statutory fee to be collected from customers as per government regulations. Unearned revenue represents flight seats sold but not yet flown and is included under Advances from customers. The same is released to the profit and loss account as the services are rendered. Miscellaneous fees charged for reservation/changes/cancellation of flight tickets are recognised as revenues immediately on accrual basis to the extent the same are not refundable.

Lease income from assets given under operating lease is recognised in the Profit and Loss Account on a straight-line basis over the lease term.

Interest income is recognised on the time proportionate method when the right to receive income is established and that collection is reasonably certain. Income from sale of advertisement space is recognised on accrual basis over the period the advertisements are displayed.

The Company enters into barter arrangements with other parties for advertising in exchange for the Company's advertising in the other party's media or in exchange for other services or goods. Such transactions are recorded at the fair value of the services/goods received from the other party, or at the fair value of the services provided by the Company if it is not feasible to determine the fair value of the services/goods received.

Deccan Aviation Limited**Notes to the financial statements for the year ended June 30, 2007****(d) Fixed assets and Intangible assets**

Fixed assets and Intangible assets are stated at cost of acquisition less accumulated depreciation/amortisation and impairment losses, if any. Cost comprises the purchase price and any attributable cost of bringing the asset to its working condition for its intended use and also includes cost of modification and improvements to leased assets. Borrowing costs relating to acquisition of fixed assets are also included to the extent they relate to the period till such assets are ready to be put to use.

Advances paid towards the acquisition of fixed assets outstanding at each balance sheet date and the cost of fixed assets not ready for intended use before such date are disclosed under capital work-in-progress.

(e) Depreciation

Depreciation on fixed assets, except software, leased assets and leasehold improvements, is provided on a straight line basis at the rates prescribed under Schedule XIV to the Companies Act, 1956, which are estimated to be the useful life of fixed assets by the management. Additions are depreciated on a pro-rata basis from the month following the date of installation till the date the assets are sold or disposed.

Leasehold improvements on operating leases are depreciated over the shorter of the period of the lease and their estimated useful lives. Assets leased under finance lease are depreciated as stated below.

Intangible assets comprise software, which is depreciated over a period of 3-6 years, based on estimated useful life as ascertained by the management.

Individual assets costing less than Rs 5,000 are depreciated in full in the year/period of acquisition.

(f) Borrowing Costs

Borrowing costs attributable to the acquisition or construction of a qualifying asset are capitalised as a part of the cost of the assets. Other borrowing costs are recognised as an expense in the period in which they are incurred.

(g) Leases

Where the Company is a lessee

Finance leases, which effectively transfer to the Company substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the lower of the fair value and present value of the minimum lease payments at the inception of the lease term and disclosed as leased assets. Lease payments are apportioned between the finance charges and reduction of the lease liability based on the implicit rate of return. Finance charges are charged directly against income. Lease management fees, legal charges and other initial direct costs are capitalised.

If there is no reasonable certainty that the Company will obtain the ownership by the end of the lease term, capitalised leased assets are depreciated over the shorter of the estimated useful life of the asset and the lease term.

Leases where the lessor effectively retains substantially all the risks and benefits of ownership over the leased term, are classified as operating leases. Operating lease payments including expenses incurred for bringing the leased asset to its working condition for intended use are recognised as an expense in the Profit and Loss account on a straight-line basis over the lease term. Lease subsidy is recognized in the profit & loss account immediately, based on company's entitlements under the terms of arrangement with the parties.

Profit or loss on sale and leaseback arrangements resulting in operating leases are recognised immediately in case the transaction is established at a fair value, else the excess over the fair value is deferred and amortised over the period for which the asset is expected to be used. In case of sale and leaseback arrangement resulting in a finance lease, any excess or deficiency of sales proceeds over the carrying value is deferred and amortised over the lease term in proportion to the depreciation of the leased asset.

Deccan Aviation Limited

Notes to the financial statements for the year ended June 30, 2007

Where the Company is a lessor

Assets subject to operating leases are included in fixed assets. Lease income is recognised in the Profit and Loss Account on a straight-line basis over the lease term. Costs, including depreciation are recognised as an expense in the Profit and Loss Account. Initial direct costs such as legal costs, brokerage costs, etc. are recognised immediately in the Profit and Loss Account.

(h) Impairment of assets

The carrying amounts of assets are reviewed at each balance sheet date if there is any indication of impairment based on internal/external factors. An impairment loss is recognised wherever the carrying amount of an asset exceeds its recoverable amount. The recoverable amount is the greater of the asset's net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value at the weighted average cost of capital. After impairment, depreciation is provided on the revised carrying amount of the asset over its remaining useful life. A previously recognised impairment loss is increased or reversed depending on changes in circumstances. However, the carrying value after reversal is not increased beyond the carrying value that would have prevailed by charging usual depreciation if there was no impairment.

(i) Maintenance costs

In respect of aircraft, aircraft engines and helicopters, the Company has entered into maintenance arrangements. Such maintenance expenses are charged to the profit and loss account on an accrual basis under the terms of the agreements entered into by the Company. Such expenses are determined based on fixed monthly amounts including charges based on flight hours, cycles, etc.

(j) Inventory

Inventories are valued at lower of cost or net realisable value. Cost includes custom duty, freight and other charges as applicable. Cost is determined on a weighted average basis at the scheduled aircraft passenger services division while it is determined based on the specific identification method at the helicopter charter services division. In respect of reusable items such as rotables, provision for obsolescence is made based on the estimated useful life of the aircraft as derived from Schedule XIV to the Companies Act, 1956.

(k) Investments

Investments that are readily realisable and intended to be held for not more than a year are classified as current investments. All other investments are classified as long-term investments. Current investments are carried at lower of cost and fair value determined on an individual investment basis. Long-term investments are carried at cost. However, provision for diminution in value is made to recognise a decline other than temporary in the value of the investments.

(l) Retirement benefits

Provident fund contributions are made to the Regional Provident Fund Commissioner, at predetermined rates and are accounted for on an accrual basis. Gratuity liability under the Payment of Gratuity Act and liability for leave encashment is accrued and provided for on the basis of an actuarial valuation made at the balance sheet date.

(m) Income taxes

Tax expense comprises current, deferred and fringe benefit tax. Current income tax and fringe benefit tax is measured at the amount expected to be paid to the tax authorities in accordance with the Indian Income Tax Act, 1961. Deferred income taxes reflects the impact of current period timing differences between taxable income and accounting income for the period and reversal of timing differences of earlier years. Deferred tax is measured based on the tax rates and the tax laws enacted or substantively enacted as at the balance sheet date. Deferred tax assets are recognised only to the extent that there is reasonable certainty that sufficient future taxable income will be available against which such deferred tax assets can be realised. Deferred tax assets are recognised on carry forward of unabsorbed depreciation and tax losses only if there is virtual certainty that such deferred tax assets can be realised against future taxable profits. Unrecognised deferred tax assets of earlier years are re-assessed and recognised to the extent that it has become reasonably certain that future taxable income will be available against which such deferred tax assets can be realised.

Deccan Aviation Limited**Notes to the financial statements for the year ended June 30, 2007****(n) Foreign currency transactions****(i) Initial recognition**

Foreign currency transactions are recorded in the reporting currency, by applying to the foreign currency amount the exchange rate between the reporting currency and the foreign currency at the date of the transaction.

(ii) Conversion

Foreign currency monetary items are reported using the closing rate. Non-monetary items which are carried in terms of historical cost denominated in a foreign currency are reported using the exchange rate at the date of the transaction; and non-monetary items which are carried at fair value or other similar valuation denominated in a foreign currency are reported using the exchange rates that existed when the values were determined.

(iii) Exchange differences

Exchange differences arising on the settlement of monetary items or on reporting Company's monetary items at rates different from those at which they were initially recorded during the period, or reported in previous financial statements, are recognised as income or as expenses in the period in which they arise except those pertaining to fixed assets which have been acquired from a country outside India, in which case the exchange difference arising on borrowings are adjusted to the cost of the fixed asset.

(iv) Forward exchange contracts

The Company uses forward exchange contracts to hedge its exposure to movements in foreign exchange rates. The Company does not use the forward exchange contracts for trading or speculation purposes. In respect of foreign currency monetary assets or liabilities in respect of which forward exchange contract is taken, the premium or discount arising at the inception of forward exchange contracts is amortised as expense or income over the life of the contract, except where it relates to fixed assets in which case it is adjusted to the cost of the corresponding asset. Exchange differences on such contracts are recognised in the statement of profit and loss in the period in which the exchange rates change. Any profit or loss arising on cancellation or renewal of forward exchange contract is recognised as income or as expense for the period.

(o) Earnings per share

Basic earnings per share are calculated by dividing the net profit or loss for the period attributable to equity shareholders (after deducting preference dividends and attributable taxes) by the weighted average number of equity shares outstanding during the period. Partly paid equity shares are treated as a fraction of an equity share to the extent that they were entitled to participate in dividends relative to a fully paid equity share during the reporting period. The weighted average number of equity shares outstanding during the period is adjusted for events of bonus issue; bonus element in a rights issue to existing shareholders; share split; and reverse share split (consolidation of shares).

For the purpose of calculating diluted earnings per share, the net profit or loss for the period attributable to equity shareholders and the weighted average number of shares outstanding during the period are adjusted for the effects of all dilutive potential equity shares.

(p) Provisions

A provision is recognised when an enterprise has a present obligation as a result of past event; and it is probable that an outflow of resources will be required to settle the obligation, in respect of which a reliable estimate can be made. Provisions are not discounted to their present value and are determined based on best estimate required to settle the obligation at the balance sheet date. These are reviewed at each balance sheet date and adjusted to reflect the current best estimates.

(q) Preliminary expenses

Preliminary expenses are written off over a period of ten years on a straight- line basis.

(r) Deferred revenue expenses

Share/debenture issue expenses, training expenses and pre-operative expenses are amortised over a period of three years on a straight- line basis following the year of incurring the expenses.

Deccan Aviation Limited**Notes to the financial statements for the year ended June 30, 2007****(s) Stock option compensation expense**

The Company accounts for stock option compensation expense based on the intrinsic value of the options granted which is the difference between the fair value of the share underlying the option and the exercise price of the option determined at the grant date. Compensation expense is amortised over the period of vesting on a straight-line basis. The accounting value of the options net of deferred compensation expense is reflected as Employee stock option outstanding.

3. Share Capital

- a. During the year, the Company has made preferential allotment of equity shares of 1,963,640 at Rs.10/- each at a premium of Rs.140/- per share to Investec Bank (UK) Limited.
 - b. On June 26, 2007, the shareholders of the Company approved the increase of the authorized share capital of the Company from 125,000,000 equity shares of Rs 10 each to 150,000,000 equity shares of Rs 10 each.
 - c. During the year, the Company has made preferential allotment of equity shares of 35,222,231 at Rs.10/- each at a premium of Rs.145/- per share to Kingfisher Radio Limited.
 - d. During the year, the Company has allotted 102,240 equity shares under Employee Stock Option Plan at Rs.10 /- each at a premium of Rs.55/- per share.
4. The Company raised an aggregate amount of Rs.36,328 lakhs through a public issue of shares during the period ended June 30, 2006, the proceeds of which have been utilized as follows:

Particulars	Rs in lakhs	
	30-June-2007	30-June-2006
Balance as per last Balance Sheet	21,833	Nil
Gross proceeds of the fresh issue	Nil	36,328
Less: Share issue expenses	1,167	911
Sub total (A)	20,666	35,417
Utilization of proceeds		
Repayment of debts	200	4,524
Capital Expenditure	645	Nil
Setting up of infrastructure at airports	566	Nil
General Corporate Expenses	236	9,060
Marketing development initiatives	2,307	
Total Out Flow (B)	3,954	13,584
Unutilized balance (A – B)	16,712	21,833
The unutilized balance has been deployed in fixed deposit with banks		

5. Commitments and contingent liabilities not provided for:

Particulars	As at June 30, 2007 (Rs)	As at June 30, 2006 (Rs)
(a) Commitments/contingent liabilities		
(i) guarantees given by banks	2,426,391,172	2,131,420,521
(ii) letters of credit outstanding	89,570,543	450,755,840
(b) Estimated amount of contracts remaining to be executed on capital account and not provided for (net of advances)	74,740,367,367	89,336,444,908
(c) Claims against the Company not acknowledged as debts (including civil and customer suits) in the normal course of business	112,977,316	23,290,729

Deccan Aviation Limited
Notes to the financial statements for the year ended June 30, 2007

The Company has entered into agreements for purchase of aircrafts/engines under which the Company has commitments to purchase aircrafts/engines over a period stipulated in the agreements. Such agreements involve complex pricing arrangements wherein the Company receives discounts/credits on such purchases, which are based on the commitments to purchase, which the Company is confident to fulfill currently. Accordingly, the amount of contingent liability, if any, as at the balance sheet date is currently not ascertainable.

In addition to the above, there are certain arbitration proceedings with customers/suppliers, in respect of which claims are currently not ascertainable.

6. Managerial remuneration

Particulars	<u>Twelve months</u> <u>ended June 30, 2007</u> <u>(Rs)</u>	<u>Fifteen months</u> <u>ended June 30,</u> <u>2006 (Rs)</u>
Salaries and allowances*		
• Captain G R Gopinath	3,000,000	2,850,000
• K J Samuel #	1,488,000	1,860,000
• Mohan Kumar (Resigned during the year)**	1,750,000	3,750,000
• Vishnu Rawal #	2,400,000	2,802,000
• Jayant Poovaiah #	1,662,750	1,572,000
Directors' sitting fees	780,000	252,000

* Does not include provisions for gratuity and leave encashment, as the same are made on the basis of an actuarial valuation determined at the overall Company level.

** Excludes Rs. 25 Million paid as non compete fee after he resigned as a director.

Previous period figures have been recast.

7. Auditors' remuneration

Particulars	<u>Twelve months</u> <u>ended June 30, 2007</u> <u>(Rs)</u>	<u>Fifteen months</u> <u>ended June 30,</u> <u>2006 (Rs)</u>
Statutory audit fees	3,500,000	3,500,000
Tax audit fees*	250,000	-
Other services, such as certification** (including IPO related certification)	909,925	8,175,000
Out of pocket expenses (including service tax)	574,026	1,921,128
Total	5,233,951	13,596,128

* Payable to another firm of chartered accountants

**Includes fees paid to the previous auditor

Note: The previous year figures also includes fees of statutory auditors for audit/certification work related to the initial public offering of the Company's shares, recorded as part of 'share issue expenses'.

Deccan Aviation Limited

Notes to the financial statements for the year ended June 30, 2007

8. Earnings in foreign currency (on accrual basis)

Particulars	<u>Twelve months ended June 30, 2007</u> (Rs)	<u>Fifteen months ended June 30, 2006 (Rs)</u>
Charter service fees	69,007,667	113,148,085
Lease rentals	4,221,360	5,357,584
Miscellaneous Income	383,344,031	490,270,000
Profit on transfer of aircraft/engine purchase rights	2,884,623,064	504,267,760

9. CIF value of imports

Particulars	<u>Twelve months ended June 30, 2007</u> (Rs)	<u>Fifteen months ended June 30, 2006 (Rs)</u>
Capital goods	976,380,759	2,487,163,545
Stores, Spares & Components	512,010,711	516,787,120

10. Expenditure in foreign currency (on accrual basis)

Particulars	<u>Twelve months ended June 30, 2007</u> (Rs)	<u>Fifteen months ended June 30, 2006 (Rs)</u>
Salaries and allowances	552,169,120	440,373,425
Traveling & Conveyance	18,721,513	31,256,625
Professional & Consultancy expenses	418,735,314	228,213,458
Training expenses	109,957,819	153,798,521
Aircraft and other maintenance expenses	2,240,430,766	1,731,863,027
Lease rentals	3,978,614,931	2,105,558,286
Others	2,179,958	3,835,324
Interest	84,690,090	69,248,672

11. Value of components and spare parts consumed

Particulars	<u>Twelve months ended June 30, 2007 (Rs)</u>		<u>Fifteen months ended June 30, 2006 (Rs)</u>	
	(Rs.)	%	(Rs.)	%
Imported	367,528,273	80	312,623,386	85
Indigenous	91,888,988	20	54,654,131	15
Total	459,417,260	100	367,277,517	100

12. Revenues from sale of airline tickets include passenger service fee of Rs. 1,524,209,098 for the year ended June 30, 2007 (Previous period Rs 989,447,496 for 15 months).

13. The Building constructed at cost of Rs 18,378,540 (June 30, 2006- Rs 18,378,540) is on a land rented from the State Government. Such rental agreement is renewable on an annual basis.

14. The Company is in the process of obtaining approvals of the Central Government under section 297/314 of the Companies Act, 1956 in respect of the following:

- Purchase of goods of Rs. 836,665 during the period ended June 30,2006 and year ended March 31, 2005 from a firm in which one of the directors of the company is interested;

Deccan Aviation Limited**Notes to the financial statements for the year ended June 30, 2007**

- Purchase of services of Rs 3,450,000 during the period ended June 30, 2006 and year ended March 31, 2005 from a private company in which one of the directors of the Company is also a director;
 - Payment of salaries of Rs 1,855,037 for the year ended June 30, 2007, and Rs.1,394,461 for the fifteen months ending June 30, 2006 to a relative of one of the directors of the Company.
15. During the year, the Company has capitalised interest on borrowings for purchase of fixed assets amounting to Rs.151,416,125 (June 30, 2006– Rs.97,589,939) under AS 16 – Borrowing Costs.
16. a) The Company has transferred aircraft/engine purchase rights to a third party and has simultaneously, leased the same on an operating lease from such third party.
- b) Profit on transfer of aircrafts purchase rights includes a sum of Rs.2,705,700,000 arising out of aircraft purchase contract for a consideration receivable by the company in 4 tranches over a period of 15 months. The first and second tranches of consideration has been recognised as income during the year.

17. Employee stock option plan [ESOP]

On March 16, 2005, the shareholders of the Company approved an employee stock option plan [ESOP 2005]. Further on December 21, 2005, the Board of Directors approved the ESOP 2006 scheme, which will govern issuance of options on or after January 1, 2006. Options issued under ESOP 2005 would continue to be governed under ESOP 2005. The shareholders have approved the issuance of 8,181,779 options in aggregate subject to a maximum of 10% of the aggregate number of issued and outstanding equity shares (calculated on an as converted basis), under both the options put together. The Plans cover all employees of the Company including Directors other than promoter directors.

During the year ended June 30, 2007 (June 30, 2006 – 3,621,900), the Company issued 2,000,200 options under ESOP 2006 scheme at an exercise price of Rs 65 per share [of Rs 10 par value], convertible into 2,000,200 (June 30, 2006 - 3,621,900) equity shares of Rs 10 each. These options vest over a period of 4 to 5 year. The options are exercisable within a period of 5 year from the vesting date.

Details of number and weighted-average exercise prices of options are given below:

Particulars	June 30, 2007		June 30, 2006	
	Number of options	Weighted average exercise price (per share) (Rs)	Number of options	Weighted average exercise price (per share) (Rs)
Outstanding at the beginning of the year	3,289,700	65	-	
Granted during the year	2,000,200	65	3,621,900	65
Exercised during the year	102,240	65	-	
Forfeited during the year	1,670,950	65	332,200	65
Outstanding at the end of the year	3,516,710	65	3,289,700	65
Exercisable at the end of the year	545,100	65	476,600	65

The weighted average price of the share on exercise date was Rs. 93.10.

The weighted average contractual remaining life of the options is 7.66 years as at June 30, 2007.

The Company determined an intrinsic value of Rs 50 per option (granted during the year) and Rs. 63 per option (granted during the period ended June 30, 2006) based on the Company's fair value of the shares determined on the date of grant and recorded a deferred compensation expense of Rs.40,728,801 during the year, net of forfeitures for the options issued.

Deccan Aviation Limited
Notes to the financial statements for the year ended June 30, 2007

	Rs.	Rs.
Accounting value of stock options outstanding		201,808,018
Less:		
Deferred stock compensation expense	132,399,965	
Amortized during the year	40,728,801	
		91,671,164
Employee stock option outstanding account		110,136,854

The following table illustrates the effect on net loss per share if the Company had applied the fair value method under Black-Scholes model to measure stock-based compensation.

	Year ended June 30, 2007 Rs	Fifteen months ended June 30, 2006 Rs
Net loss after tax as reported	4,195,761,016	3,405,471,325
Less: Compensation expense as recognized	40,728,801	75,846,106
Add: Compensation expense under the fair value method (Black Scholes Method)	6,995,123	94,604,395
Net loss after tax, pro forma	4,162,027,335	3,424,229,614
Loss per share as reported, basic and diluted (Rs 10 par value)	42.24	68.24
Loss per share, pro forma, basic and diluted (Rs 10 par value)	41.90	68.62

The following assumptions were used in determination of the fair value of the Company's stock options for pro forma net loss per share disclosures using the Black-Scholes option-pricing model.

	For options granted during the year ended June 30, 2007	For options granted during the fifteen months ended June 30, 2006
Risk free interest rate (%)	8.13	6.76
Weighted average expected life (years)	5.21	5.07
Expected volatility (%)	23.95	-
Expected dividends	-	-

18. Related Party Disclosures

Names of related parties

Key Management Personnel	Capt. G.R Gopinath, Capt. KJ Samuel, Mr Mohan Kumar, Capt. Vishnu Rawal and Col Jayant Pooviah,
Associate company (Refer note below)	a) Deccan Aviation (Lanka) Private Limited ('DAPL') b) Kingfisher Radio Limited
Enterprises owned or significantly influenced by key management personnel or their relatives or persons who have control or significant influence over the Company	a) M/s Loaves & Rolls, in which wife of one of the key managerial personnel is the proprietor. b) Deccan Cargo Private Limited, in which three directors of the company are interested as promoters.
Relatives of Key Managerial Personnel	Mr. Joseph Samuel, son of Capt. KJ Samuel

Deccan Aviation Limited
Notes to the financial statements for the year ended June 30, 2007

		Associate company	Key management personnel	Enterprises owned or significantly influenced by group of individuals or their relatives who have control or significant influence over the Company	Total
Transactions during the year/period					
Helicopter lease rentals earned	<i>Jun 2007</i>	4,221,360			4,221,360
	<i>Jun 2006</i>	5,357,584			5,357,584
Commission received from M/s Loaves & Rolls.	<i>Jun 2007</i>				
	<i>Jun 2006</i>			3,083,825	3,083,825
Rent Expense	<i>Jun 2007</i>		674,623		674,623
	<i>Jun 2006</i>		786,795	253,666	1,040,461
Investment by Kingfisher Radio Limited *	<i>Jun 2007</i>	352,222,310			352,222,310
	<i>Jun 2006</i>	-			
Other expenses paid to M/s Loaves and Rolls.	<i>Jun 2007</i>				
	<i>Jun 2006</i>			365,268	365,268
Balances outstanding at end of year/period					
Assets given on lease (at gross block)	<i>Jun 2007</i>	11,347,500			11,347,500
	<i>Jun 2006</i>	11,347,500			11,347,500
Receivables for lease rentals and expense reimbursements	<i>Jun 2007</i>	8,200,692			8,200,692
	<i>Jun 2006</i>	5,813,558			5,813,558
Advances recoverable in cash or in kind	<i>Jun 2007</i>			6,918,109	6,918,109
	<i>Jun 2006</i>			1,680,000	1,680,000
Dues by / (to) the Company	<i>Jun 2007</i>		14,437		14,437
	<i>Jun 2006</i>		(179,458)	-	(179,458)

Remuneration paid to directors is disclosed elsewhere in the notes to accounts.

Salaries paid Rs. 1,855,037 (June 30, 2006 – Rs.1,394,461) during the year ended June 30, 2007, to a relative of one of the directors of the Company. Balance due to such person as at June 30, 2007 is Rs. 174,474 (June 30, 2006 – Rs 136,677).

Some of the key managerial personnel have given personal guarantees. In addition to key managerial personnel, their relatives have offered collateral securities to banks and financial institutions against the loans taken by the Company from such banks and financial institutions.

The Company obtained certain services amounting to Rs NIL (Previous period ended 30th June 2006 - Rs 1,650,000) from Lam Sports Group Private Limited (LSGPL) in which one of the directors of the Company is also a director. An amount of Rs NIL (As at 30th June 2006 - Rs 1,650,000) was due to such company.

* Excludes share premium of Rs.5,107,223,495

Deccan Aviation Limited
Notes to the financial statements for the year ended June 30, 2007

In addition to the related party disclosures as stated above, consequent to the acquisition of 35,222,231 Equity Shares of the Company, amounting to 26% of the voting Capital, by Kingfisher Radio Limited, the details relating to Group, as defined in the Monopolies and Restrictive Trade Practices Act, 1969, in compliance of the disclosure requirements of the SEBI (Substantial Acquisition of Shares and Takeovers) Regulation 1997, for the purpose of inter-se transfer of shares amongst Group Companies, are as follows:-

a) Companies where control exists:

- Kingfisher Radio Limited
- United Breweries [Holdings] Limited
- UB Overseas Limited
- UBHL [BVI] Limited

b) Associate/Group Companies:

Kingfisher Aviation Training Limited, UB Infrastructure Projects Limited, UB Electronic Instruments Limited, Kingfisher Airlines Limited, Kingfisher Training Academy Limited, City Properties Maintenance Company Bangalore Limited, UB International Trading Limited, Rigby International Corp, Rubic Technologies Inc, United Breweries of America Inc, Delaware, Inversiones Mirabel, S.A, Mendocino Brewing Co. Inc. U.S.A, United Breweries International [UK] Limited, UBSN Limited, and Releta Brewing Company LLC.

19. Leases and Hire Purchase

The Company has entered into operating and finance lease agreements. Disclosures required under AS 19 – Accounting for Leases is as given below:

Operating leases

Operating lease arrangements comprise of leases of aircraft, helicopters, spare engines and office premises. The salient features of operating lease agreements for aircrafts, helicopters and spare engines are as follows:

- Lease periods range up to twelve years and are usually non-cancelable. (Lease periods ranged up to 10 years as at June 30, 2007)
- Lease rentals are usually fixed over the term of the lease while some arrangements are subject to adjustments linked to the Libor rates movements.
- The Company also has agreements for maintenance and lease of stores and spares for such aircrafts for which fixed and variable rentals are paid. Variable rentals are paid on a pre determined rate payable on the basis of actual flying hours/cycles. Such variable rentals are subject to annual escalations as stipulated in the agreements. However, the Company is eligible to claim reimbursement of maintenance costs to the extent eligible under the agreements.
- The Company does not have an option to buy the aircraft or helicopters and spare engines or to renew the leases.
- In case of default by the Company, in addition to repossession of the aircraft, penalties are stipulated in the agreements.
- The Company is required to deposit a commitment fee and a security deposit with the lessor or provide a letter of credit for such amounts.
- Operating lease agreements for office & residential premises are mainly for a non cancelable period of three years. The leased premises can be renewed at terms mutually agreeable to the Company and the lessor.

Deccan Aviation Limited
Notes to the financial statements for the year ended June 30, 2007

Particulars	<u>Twelve months ended June 30, 2007 (Rs)</u>	<u>Fifteen months ended June 30, 2006 (Rs)</u>
Lease payments for the year/ period	4,059,020,329	2,163,827,319
Minimum Lease Payments:		
- Not later than one year	4,603,511,189	3,566,879,973
- Later than one year but not later than five years	15,065,145,736	11,829,669,000
- Later than five years	3,436,391,847	2,940,580,265

In addition to the above, the Company has entered into agreements to lease aircrafts/engines in respect of which the aircrafts/engines are pending delivery/the lease is yet to commence as at June 30, 2007. The above table of minimum lease payments does not include amounts that may become payable in respect of leases yet to commence as at June 30, 2007.

Finance leases

Finance lease arrangements relate to ground handling and related equipments. The lease period is for three years with interest rates ranging from 10.5% to 12% per annum and the Company has an option to renew the lease at the end of the initial lease term. The Company pays fixed lease rentals over the period of the lease whereby the net present value of the minimum lease payments amount substantially to the cost of the assets.

Particulars	<u>Twelve months ended June 30, 2007 (Rs)</u>	<u>Fifteen months ended June 30, 2006 (Rs)</u>
Total minimum lease payments at the balance sheet date in case of balance fixed non cancelable lease term.	24,599,630	44,632,931
Less : amount representing finance charges	2,234,817	5,465,647
Present value of minimum lease payments (Rate of interest 11% p.a.)	22,364,813	39,167,284
Lease payments for the period	20,048,160	11,816,879
Minimum Lease Payments :	15,014,422	20,033,301
Not later than 1Yr [Present Value Rs.13,297,664 as on June 30,2007(Previous Year Rs 16,664,510)]		
Later than 1Yr but not later than 5Yrs [Present Value Rs.9,143,538 as on June 30,2007 (Previous Year Rs. 22,502,774)]	9,585,208	24,599,630

Hire purchase arrangements

During the period ended June 30, 2006, the Company entered into hire purchase agreements in respect of aircrafts. The salient features of hire purchase agreements for aircrafts are as follows:

- Term is for 10 years.
- Option to purchase the aircraft either during the term of the hire purchase arrangement on payment of the outstanding principal amount or at the end of the hire purchase term on payment of a nominal option price.
- In the event of default, the Company is responsible for payment of all costs of the owner including the financing costs and other associated costs. Further a right of possession is available to the owner.
- The Company is responsible for maintaining the aircraft as well as insuring the same.

Deccan Aviation Limited
Notes to the financial statements for the year ended June 30, 2007

Particulars	<u>June 30, 2007</u> <u>(Rs)</u>	<u>June 30, 2006</u> <u>(Rs.)</u>
Total minimum hire purchase installments at the balance sheet date in case of balance fixed non-cancelable term.	1,142,869,803	1,782,012,955
Present value of minimum hire purchase installments	866,059,359	1,403,641,210
Payments for the period	98,412,024	198,554,563
Hire purchase payments:		
Not later than one year [Present value Rs.47,015,823 as on June 30, 2007 (June 30, 2006 Rs.111,284,076)]	103,068,176	179,580,601
Later than 1 Year but not later than 5 years [Present value Rs.304,430,442 as on June 30, 2007 (June 30, 2006 Rs.501,650,679)]	465,206,316	707,861,532
Later than 5 years [Present value Rs.514,613,094 as on June 30, 2007 (June 30, 2006 Rs. 790,706,455)]	574,597,757	894,570,822

Assets given on lease

The Company has given one helicopter to Deccan Aviation (Lanka) Private Limited under an operating lease arrangement for a period of one year renewable at the end of the lease term. Lease rental income recognized in the Profit and Loss account amounts to Rs 4,221,360 (Previous year Rs 5,357,584).

20. Segment disclosures

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.

21. Deferred taxes

Deferred tax asset on unabsorbed depreciation and business losses has not been recognised by the management as a matter of prudence in accordance with the Company's accounting policy.

22. Loss per share (EPS)

Particulars	<u>Twelve months</u> <u>ended June 30,</u> <u>2007 (Rs)</u>	<u>Fifteen months</u> <u>ended June 30,</u> <u>2006 (Rs)</u>
Loss for computation of basic and diluted EPS	(4,195,761,016)	(3,405,471,325)
Weighted average number of shares considered for basic EPS (Rs 10 par value)*	99,326,445	49,904,959
Add: Effect of employee stock options**	-	-
Weighted average number of shares considered for diluted EPS	99,326,445	49,904,959

* For the purposes of EPS computation for the fifteen months ended June 30, 2006, the share data has been adjusted to reflect the share split and bonus issue during that period.

** The effect of employee stock options on weighted average number of shares for diluted EPS is not considered since their effect is anti-dilutive.

Deccan Aviation Limited**Notes to the financial statements for the year ended June 30, 2007**

23. The Company has entered into forward contracts for US dollars 5 million to hedge foreign currency liabilities (payables).

The foreign currency exposures that have not been hedged by any derivative instrument or otherwise as on June 30, 2007 are as follows:

Particulars	As at June 30, 2007 (Rs.)	As at June 30, 2006 (Rs.)
Assets (Receivables)	447,555,250	252,888,123
Liabilities (Payables)	564,222,519	808,807,807
Hire Purchase loan for aircrafts and other term loan from financial institution	1,219,272,438	2,196,475,961

24. In respect of certain training costs which are initially funded by the employee, the Company has an obligation to reimburse the employee such training costs in case the employee fulfills certain employment conditions under the terms of agreement with the Company. The Company has made a provision of Rs 67,528,046 for the twelve month period ended June 30, 2007 (June 30, 2006 – Rs.47, 465,043). Such a provision on a cumulative basis amounts to Rs 139,131,666 as at June 30, 2007 (June 30, 2006 – Rs. 71,603,620) for such liability on an estimate basis and is included under Current Liabilities. Also refer schedule 12.
25. Miscellaneous income for the year ended June 30, 2007 includes Rs.256,602,800 (June 30,2006 - Rs.490,270,000) towards lease subsidy received by the company.
- 26.. Other Direct Operating Expenses for the year ended June 30, 2007 is net of credit memorandum of Rs. 119,680,500 (June 30, 2006 - Nil)
- 27.. As at June30, 2007, the Company was in the process of reconciling certain unmatched transactions of ticket reservations and cancellations amounting to Rs 1,626,541 (Previous year 40,157,022) and Rs.256,024,807 (Previous year 254,090,459) respectively, as per the Company's ticket reservation system with the collections of Rs 65,401,401 (Previous year Rs.45,722,299) and payments of Rs 460,986,194 (Previous Year Rs.350,197,471), as per the credit card gateway service provider. No adjustments however has been made to the financial statements for the year ended June 30, 2007, as management is of the view that the same will not be material.
- 28.. As at March 31, 2005, the Company was in the process of reconciling its stock ledger of rotables, stores and spares, of one of the divisions with its financial records and was in the process of updating its stock ledgers for items emanating from such reconciliation. No adjustments were made to the financial statements for the year ended March 31, 2005, as management was of the view that the same would not be material.

Based on an elaborate exercise performed by the management in respect of the financial statements for the fifteen months ended June 30, 2006, the Company reconciled its stock ledger of rotables, stores and spares with its financial records and has valued the inventories based on the physical stock on hand and in case of rotables, the inventories fitted to the aircrafts. Management has carried out the necessary adjustments to the financial statements as at June 30, 2006. However, the impact, if any, of such adjustments arising from the unreconciled inventory records of March 31, 2005 is not ascertainable.

29. As part of the rapid expansion plans, the Company incurred significant expenditure on in house trainers towards training of pilots and technical engineers. Although, such in house training costs are not covered under bond or are not recoverable from the employees, the Company has deferred such costs as management believes that the economic benefits of such training costs will flow to the enterprise over a period. Such training costs are being amortized over a period of three years following the year in which the expenses are incurred. As at June 30, 2007 and

Deccan Aviation Limited**Notes to the financial statements for the year ended June 30, 2007**

June 30, 2006 a net sum of Rs.28,270,478 and Rs.114,713,980, respectively have been reflected as 'Training Expenses' under Deferred Revenue Expenses.

30. During the years ended March 31, 2004 and 2005, the Company incurred certain expenses prior to commencement/expansion of operations. The Company has deferred these expenses to be written off over a period of three years following the year in which the expenses are incurred. As at June 30, 2007 and June 30, 2006 a net sum of Rs 2,628,571 and Rs. 21,238,741, respectively have been reflected as 'Preoperative Expenses' under Deferred Revenue Expenses.
- 31.. The company has initiated the process of obtaining confirmation from suppliers regarding the registration under the MSME Act "Micro Small and Medium Enterprises Development Act 2006", which came into effect from October 2, 2006. The suppliers are not registered wherever the confirmations are received and in other cases the company is not aware of their registration status and hence information relating to outstanding balance or interest due is not disclosed as it is not determinable.
32. Consequent to the allotment of 35,222,231 Equity Shares of Rs.10/- each amounting to 26% of the voting capital of the Company, to Kingfisher Radio Limited (Acquirer) on Preferential Basis, the said Acquirer, along with United Breweries (Holdings) Limited and UB Overseas Limited being Persons Acting in Concert, made an Open Offer to the shareholders of the Company, to acquire 27,126,360 fully paid Equity Shares representing 20% of the post-acquisition Equity Capital of the Company at a price of Rs155/-, pursuant to Regulations 10 and 12 of the SEBI (Substantial Acquisition of Shares and Takeovers) Regulations 1997 for Substantial Acquisition of Shares of the Company and change in control therein. The said Open Offer opened on September 12th 2007 and closes on October 01st 2007.

33. Details of non-resident shareholdings:

Particulars	June 30, 2007	June 30, 2006
Number of non resident share holders	444	393
Number of shares held by non resident shareholders	14,394,208	25,131,636

34. The previous year's figures are for fifteen months ended June 30, 2006, while those of current year are for twelve months ended June 30, 2007. Hence the same are not strictly comparable. The previous period's figures have been regrouped / reclassified wherever necessary to conform to the current year's presentation.

As per our report of even date
For B K Ramadhyani & Co
Chartered Accountants

For and on behalf of Board of Directors

per Satyanarayana Murthi
Partner

Capt. G. R. Gopinath
Managing Director

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

Place: Bangalore
27th September 2007

Ramki Sundaram
Chief Financial Officer

N Srivatsa
Company Secretary