## FINANCIAL HIGHLIGHTS

| Sl. No. | Particulars | Units | 96-97 | 97-98 | 98-99 | 99-00 | 00-01 | 01-02 | 02-03 | 03-04 | 04-05 | 05-06 | 06-07 | 07-08 | 08-09 | 09-10 | 10-11 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| A | **Our Earnings** | | | | | | | | | | | | | | | | |
| | Sales - Inland | **Rs. Cr.** | 1730.57 | 1828.88 | 2003.70 | 2353.92 | 2387.94 | 2707.96 | 3016.53 | 3584.43 | 4383.75 | 5155.31 | 7513.10 | 8284.24 | 9936.80 | 11252.03 | 12878.12 |
| | Export Sales | **Rs. Cr.** | 39.64 | 41.05 | 44.03 | 46.96 | 58.61 | 66.85 | 103.89 | 215.35 | 150.05 | 186.19 | 270.51 | 341.09 | 436.58 | 204.67 | 237.39 |
| | **Total Sales** | **Rs. Cr.** | **1770.21** | **1869.93** | **2047.73** | **2400.88** | **2446.55** | **2774.81** | **3120.42** | **3799.78** | **4533.80** | **5341.50** | **7783.61** | **8625.33** | **10373.38** | **11456.70** | **13115.50** |
| | Changes in WIP & SIT | **Rs. Cr.** | -77.03 | -31.81 | 41.30 | 53.55 | 156.71 | 188.63 | 357.42 | -43.64 | 450.75 | 575.12 | 1418.27 | 166.19 | 1437.47 | 2032.89 | 3335.34 |
| | **Total** | **Rs. Cr.** | **1693.18** | **1838.12** | **2089.03** | **2454.43** | **2603.26** | **2963.44** | **3477.84** | **3756.14** | **4984.55** | **5916.62** | **9201.88** | **8791.52** | **11810.85** | **13489.59** | **16450.84** |
| B | **Our Outgoings** | | | | | | | | | | | | | | | | |
| | Cost of Materials | **Rs. Cr.** | 666.87 | 671.99 | 807.36 | 787.06 | 927.67 | 1255.85 | 1607.51 | 1673.36 | 2686.17 | 3313.49 | 5980.40 | 4684.43 | 7635.95 | 9221.80 | 11772.43 |
| | Manpower Cost | **Rs. Cr.** | 418.80 | 529.97 | 508.66 | 762.09 | 837.02 | 724.00 | 746.80 | 773.25 | 808.78 | 837.69 | 1054.46 | 1802.69 | 2542.78 | 1954.05 | 2287.15 |
| | Net Operating Cost | **Rs. Cr.** | 379.02 | 373.12 | 514.47 | 553.61 | 805.55 | 829.16 | 953.48 | 899.91 | 917.87 | 1014.21 | 1163.10 | 1686.02 | 886.86 | 984.87 | 723.81 |
| | Net Financing Cost | **Rs. Cr.** | 80.61 | 73.90 | 36.64 | -90.10 | -263.25 | -257.02 | -308.54 | -247.01 | -250.96 | -452.37 | -839.96 | -1663.80 | -1732.16 | -1525.57 | -1340.86 |
| | Depreciation | **Rs. Cr.** | 26.76 | 24.31 | 24.16 | 26.51 | 31.12 | 37.98 | 45.22 | 57.21 | 65.16 | 77.31 | 100.28 | 117.95 | 142.55 | 166.00 | 168.79 |
| | **Total** | **Rs. Cr.** | **1572.06** | **1673.29** | **1891.29** | **2039.17** | **2338.11** | **2589.97** | **3044.47** | **3156.72** | **4227.02** | **4790.33** | **7458.28** | **6627.29** | **9475.98** | **10801.15** | **13611.32** |
| C | **Our Savings** | | | | | | | | | | | | | | | | |
| | Profit Before Tax | **Rs. Cr.** | 121.12 | 164.83 | 197.74 | 415.26 | 265.15 | 373.48 | 433.37 | 599.42 | 757.53 | 1126.29 | 1743.60 | 2164.23 | 2334.86 | 2688.43 | 2839.52 |
| | Provision For Tax | **Rs. Cr.** | 15.62 | 17.31 | 20.00 | 47.00 | 21.50 | 28.70 | 43.41 | 189.63 | 256.47 | 355.15 | 594.84 | 532.35 | 595.00 | 721.02 | 725.27 |
| | **Profit After Tax For Appropriation** | **Rs. Cr.** | **105.50** | **147.52** | **177.74** | **368.26** | **243.65** | **344.78** | **389.96** | **409.79** | **501.06** | **771.14** | **1148.76** | **1631.88** | **1739.86** | **1967.41** | **2114.26** |
| D | **We Own** | | | | | | | | | | | | | | | | |
| | Net Block | **Rs. Cr.** | 208.09 | 209.03 | 213.35 | 245.63 | 278.10 | 352.19 | 434.74 | 515.44 | 525.87 | 730.34 | 1020.98 | 1080.07 | 1327.56 | 1465.50 | 1509.18 |
| | Other Capital Assets | **Rs. Cr.** | 408.65 | 407.75 | 356.41 | 336.92 | 845.12 | 865.03 | 1323.97 | 2273.89 | 3477.09 | 4375.40 | 4922.26 | 5173.20 | 5254.75 | 5387.51 | 5297.62 |
| | Working Capital | **Rs. Cr.** | 455.78 | 492.09 | 618.82 | 919.87 | 603.60 | 1172.87 | 714.49 | 176.72 | -368.72 | -521.81 | -570.06 | 411.53 | 1561.41 | 2775.98 | 4424.14 |
| | **Total** | **Rs. Cr.** | **1072.52** | **1108.87** | **1188.58** | **1502.42** | **1726.82** | **2390.09** | **2473.20** | **2966.05** | **3634.24** | **4583.93** | **5373.18** | **6664.79** | **8143.72** | **9628.99** | **11230.94** |
| E | **We Owe** | | | | | | | | | | | | | | | | |
| | Equity | **Rs. Cr.** | 120.50 | 120.50 | 120.50 | 120.50 | 120.50 | 120.50 | 120.50 | 120.50 | 120.50 | 120.50 | 120.50 | 120.50 | 120.50 | 120.50 | 120.50 |
| | Reserves and Surplus | **Rs. Cr.** | 621.74 | 721.55 | 867.32 | 1201.83 | 1379.11 | 1640.41 | 1810.31 | 2120.92 | 2508.06 | 3050.58 | 3913.92 | 5163.22 | 6495.97 | 8003.02 | 9624.72 |
| | **Shareholders' Funds** | **Rs. Cr.** | **742.24** | **842.05** | **987.82** | **1322.33** | **1499.61** | **1760.91** | **1930.81** | **2241.42** | **2628.56** | **3171.08** | **4034.42** | **5283.72** | **6616.47** | **8123.52** | **9745.22** |
| | **Deferred Tax Liability** | **Rs. Cr.** | | | | | | | **166.85** | **354.27** | **623.90** | **1047.95** | **1334.73** | **1379.05** | **1525.27** | **1505.29** | **1485.55** |
| | Borrowings | **Rs. Cr.** | 196.96 | 232.27 | 181.54 | 179.48 | 227.21 | 380.06 | 374.47 | 365.34 | 363.78 | 363.88 | 4.03 | 2.03 | 1.98 | 0.18 | 0.17 |
| | Cash Credit Loan | **Rs. Cr.** | 133.32 | 34.55 | 19.22 | 0.61 | 0.00 | 249.12 | 1.07 | 5.02 | 18.00 | 1.02 | | | | | |
| | **Total Borrowings** | **Rs. Cr.** | **330.28** | **266.82** | **200.76** | **180.09** | **227.21** | **629.18** | **375.54** | **370.36** | **381.78** | **364.90** | **4.03** | **2.03** | **1.98** | **0.18** | **0.17** |
| | **Total** | **Rs. Cr.** | **1072.52** | **1108.87** | **1188.58** | **1502.42** | **1726.82** | **2390.09** | **2473.20** | **2966.05** | **3634.24** | **4583.93** | **5373.18** | **6664.79** | **8143.72** | **9628.99** | **11230.94** |
| F | **Financial Statistics** | | | | | | | | | | | | | | | | |
| | Value of Production | **Rs. Cr.** | 1693.18 | 1838.12 | 2089.03 | 2454.43 | 2603.26 | 2963.44 | 3477.84 | 3756.14 | 4984.55 | 5916.62 | 9201.88 | 8791.52 | 11810.85 | 13489.59 | 16450.84 |
| | Value Added | **Rs. Cr.** | 1026.31 | 1166.13 | 1281.67 | 1667.37 | 1675.59 | 1707.59 | 1870.33 | 2082.78 | 2298.38 | 2603.13 | 3221.48 | 4107.09 | 4174.90 | 4267.78 | 4678.42 |
| | Dividend (including Tax) | **Rs. Cr.** | 26.51 | 26.51 | 26.75 | 26.75 | 53.70 | 68.96 | 87.99 | 92.46 | 113.92 | 228.62 | 285.42 | 382.57 | 407.12 | 460.35 | 492.56 |
| | R & D Expenditure | **Rs. Cr.** | 81.95 | 129.83 | 146.35 | 171.66 | 204.09 | 203.72 | 265.06 | 313.81 | 306.63 | 433.58 | 637.79 | 662.14 | 674.78 | 832.12 | 986.96 |
| | Gross Margin | **Rs. Cr.** | 300.14 | 334.22 | 362.26 | 554.88 | 404.70 | 531.83 | 594.54 | 800.36 | 974.46 | 1408.15 | 2124.53 | 2650.95 | 3123.17 | 3382.75 | 3654.32 |
| | Gross Block | **Rs. Cr.** | 805.34 | 829.38 | 856.27 | 914.20 | 976.53 | 1085.41 | 1211.04 | 1344.26 | 1417.27 | 1694.58 | 2080.89 | 2254.97 | 2638.09 | 2933.53 | 3142.73 |
| | Inventory | **Rs. Cr.** | 1215.82 | 1163.04 | 1293.78 | 1500.35 | 1905.41 | 2073.24 | 2394.95 | 2576.52 | 3508.64 | 4809.74 | 7222.52 | 8614.64 | 10431.19 | 13660.03 | 17427.18 |
| | Sundry Debtors | **Rs. Cr.** | 637.57 | 630.55 | 501.59 | 226.80 | 210.19 | 248.23 | 510.02 | 990.20 | 1106.20 | 1404.13 | 1281.18 | 1486.10 | 1848.26 | 1858.03 | 2318.22 |
| | Capital Employed | **Rs. Cr.** | 1013.54 | 1063.53 | 1150.26 | 1451.11 | 1177.07 | 1802.24 | 1409.76 | 1377.13 | 1507.65 | 2204.66 | 3004.48 | 4485.20 | 5914.20 | 7272.27 | 8978.75 |
| | Net Worth | **Rs. Cr.** | 648.55 | 752.66 | 934.11 | 1259.67 | 1015.20 | 1229.38 | 928.18 | 799.72 | 882.07 | 1440.85 | 2084.99 | 3326.53 | 4635.76 | 6157.30 | 7851.79 |
| | No. Of Employees | **Nos.** | 34183 | 33967 | 34828 | 34448 | 32642 | 31652 | 31138 | 30450 | 29807 | 29668 | 31666 | 34323 | 34822 | 33990 | 33681 |
| G | **Financial Ratios** | | | | | | | | | | | | | | | | |
| | Sales Per Employee | **Rs** | 517863 | 550514 | 587955 | 696957 | 749508 | 876663 | 1002126 | 1247875 | 1521052 | 1800426 | 2458034 | 2512989 | 2978973 | 3370609 | 3894036 |
| | Value Added Per Employee | **Rs** | 300240 | 343313 | 367999 | 484026 | 513323 | 539487 | 600658 | 684000 | 771087 | 877424 | 1017330 | 1196600 | 1198926 | 1255600 | 1389038 |
| | PBT to Sales | **%** | 6.84 | 8.81 | 9.66 | 17.30 | 10.84 | 13.46 | 13.89 | 15.78 | 16.71 | 21.09 | 22.40 | 25.09 | 22.51 | 23.47 | 21.65 |
| | PBIT to Capital Employed | **%** | 21.99 | 22.99 | 23.61 | 32.08 | 27.44 | 23.92 | 34.77 | 46.69 | 53.09 | 53.26 | 58.56 | 48.55 | 39.48 | 36.97 | 31.62 |
| | PAT to Net Worth | **%** | 16.27 | 19.60 | 19.03 | 29.23 | 24.00 | 28.04 | 42.01 | 51.24 | 56.81 | 53.52 | 55.10 | 49.06 | 37.53 | 31.95 | 26.93 |
| | Debt Equity Ratio | **Times** | 0.27 | 0.28 | 0.18 | 0.14 | 0.15 | 0.22 | 0.19 | 0.16 | 0.14 | 0.12 | 0.001 | 0.00038 | 0.00030 | 0.00002 | 0.00002 |
| | Earnings Per Share | **Rs** | 8.76 | 12.24 | 14.75 | 30.56 | 20.22 | 28.61 | 32.36 | 34.01 | 41.58 | 64.00 | 95.33 | 135.43 | 144.39 | 163.27 | 175.46 |
| | Dividend as %age of Equity (including Dividend Tax) | **%** | 22.00 | 22.00 | 22.20 | 22.20 | 44.56 | 57.23 | 73.02 | 76.73 | 94.54 | 189.73 | 236.86 | 317.49 | 337.86 | 382.04 | 408.76 |

## LIST OF BOARD OF DIRECTORS OF HAL AS ON 7th SEPTEMBER 2011

### WHOLE TIME DIRECTORS

1 **SHRI ASHOK NAYAK,** Chairman
Hindustan Aeronautics Limited
15/1,Cubbon Road, P.B.No.5150
BANGALORE – 560 001.
Ph: 080-22863105 / 22868003

2 **SHRI P V DESHMUKH**
Managing Director
HAL MiG Complex, Ojhar Township,
NASIK - 422 207, Maharashtra State.
02550-275100

3 **SHRI S K JHA**
Managing Director
HAL Accessories Complex
P.B.No.215, LUCKNOW - 226 016 (U.P).
Ph: 0522-2340327

4 **SHRI P SOUNDARA RAJAN**
Managing Director
HAL Helicopter Complex
P.B.No.1790, Vimanapura Post
BANGALORE – 560 017

5 **SHRI V. M. CHAMOLA**
Director (HR)
Hindustan Aeronautics Limited
15/1, Cubbon Road, P.B.No.5150
BANGALORE - 560 001.

6 **Sqn. Ldr. (Retd.) Baldev Singh.**
Director (CP&M)
HAL C.O. 15/1, Cubbon Rd.
BANGALORE - 560 001
Ph:-080-22867465 / 22867487

7 **SHRI K. NARESH BABU**
Managing Director
HAL Bangalore Complex
Vimanapura Post,
BANGALORE – 560 017
Ph:+ 080 – 25228230 /25223534

8 **DR. A. K. MISHRA,**
Director Finance (Officiating)
HAL Corporate Office.
BANGALORE – 560 001.
Ph: 080 – 25227348 /25223457

9 **……………**
- Director (Design & Development), DC Bangalore – 17.

### PART TIME OFFICIAL DIRECTORS

1 **SHRI MANOJ SAUNIK**
Joint Secretary (Aerospace)
Ministry of Defence
Dept. of Defence Production
NEW DELHI - 110 011
Ph : 011-23012778

2 **Shri PK KATARIA**
Additional FA (K) & JS
Ministry of Defence, (Finance Wing)
NEW DELHI - 110 011.
Ph. (11) 2301 1871 / Fax (011) 23013936
e-Mail : katariapk@gmail.com

### PART TIME NON-OFFICIAL DIRECTORS

1 **SHRI V K MISRA**
56/1, Friends Colony (East)
NEW DELHI- 110 065.
Ph.011-26833473 / Mob: (0) 9810126136.

2 **Prof. N K NAIK,** Emeritus Fellow
Aerospace Engineering Department
Indian Institute of Technology
Bombay Powai, MUMBAI - 400 076,
Ph.022-25767114 / Fax: 022-2572 2602
E-mail:nknaik@aero.iitb.ac.in

3 **SHRI AJAY SHANKAR**
C/O Lt. Gen. Vinay Shankar
G-602 Lagoon Apartments
Ambience Island, NH-8
GURGAON - 120 002.
011-23383659 (M) 9899000982

4 **SHRI SURENDRA KUMAR**
Villa No.25, Lakshmi Gayatri Enclave
(Adjacent to MNR PG College Campus)
HMT Hills Kukkatpally,
HYDERABAD -500 072, AP
E-Mail: surendrakumar0901@gmail.com
Mob. Ph.9490425970 / 9177681682
Fax.No.040-66120090

5 **PROF. (DR.) R VENKATA RAO**
Vice Chancellor
National Law School of India University
Nagarbhavi, Post Bag No.7201
BANGALORE – 560 242.
(M) 9740560111. (080) 23160520
E-mail : profrao@yahoo.com

6 **SHRI V V R SASTRY**
Flat No.A-506, C-DOT Apts.
GH-2, Sector-56, GURGAON, HARYANA
Center for Development of Telematics
C-DOT Campus, Mandi Rd. Meharauli,
NEW DELHI – 110030
Tel. No. 91-11-26598118
Fax No. 91-11-26598242

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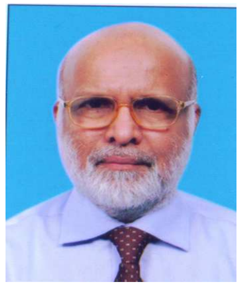
# BOARD OF DIRECTORS

**Shri Ashok Nayak**

**Shri V. K. Misra**

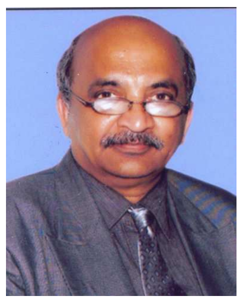


**Dr. N. K. Naik**

**Shri Manoj Saunik**

**Shri P. K. Kataria**

**Shri V.V.R. Sastry**



**Dr.(Prof.)R. Venkata Rao**

**Shri Surendra Kumar**

**Shri Ajay Shankar**

**Shri P. V. Deshmukh**

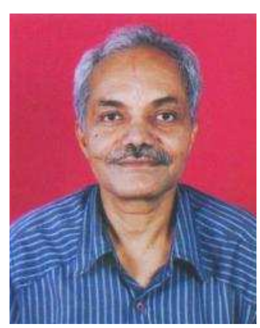
**Shri S. K. Jha**

**Shri P. Soundara Rajan**

**Shri V. M. Chamola**

**Sdn. Ldr.(Retd.) Baldev Singh**

**Shri K. Naresh Babu**



**Dr. A. K. Mishra**

## CHAIRMAN’S SPEECH

Dear Shareholders,

It is my privilege to welcome you all to the 48th Annual General Meeting of the Company. I thank you for your gracious presence and express my warmest greetings. The audited Accounts for the year ended 31st March 2011 and the Directors’ Report have been with you and with your permission, I shall take them as read.

**PERFORMANCE OVERVIEW**

I am delighted to inform you that your Company has once again registered an impressive performance on all important parameters during the year 2010-11. The turnover registered a growth of 14 per cent at ₹ 13,116 crore, whereas the Profit before Tax grew by 6 per cent at ₹ 2840 crore.

The Company has produced 78 aircraft and helicopters, a record number, along with their engines and accessories during the year. This is double the average production of the last ten years.

The first Su-30 MKI aircraft from raw material phase (Phase IV) was produced during the year after completing the technology absorption.

The Initial Operation Clearance (IOC) of the Light Combat Aircraft (LCA) was achieved during the year. On the Design and Development front, a major milestone was achieved with the first Naval Prototype (NP-1), rolling out in the presence of the Hon’ble Raksha Mantri, Shri A.K. Antony.

The Company continued with its achieving 'Excellent' rating for the year 2009-10 under MOU criterion of performance evaluation. I am confident that the Company's performance during 2010-11 will earn an 'Excellent' rating once more. This is significant for it will complete 10 years of your Company consistently earning the 'Excellent' rating.

**DIVIDEND**

It gives me great pleasure to inform you that the Board of Directors has recommended a total dividend of ₹ 35.11 per Equity Share of ₹ 10/- each for the year 2010-11 as against ₹ 32.65 per share declared for the previous year. The dividend, including the two interim dividends, works out to a total of ₹ 423.12 crore for the year 2010-11.

The Company has been consistently declaring Dividends. Since its inception, a total amount of ₹ 2933 crore has been remitted to the Government of India towards Dividend including Dividend Tax of ₹ 364 crore.

**ECONOMIC SCENARIO**

The Indian economy, post recession, has shown stability and resilience in growth by achieving GDP growth for 2010-11 at 8.5 per cent up from 7.2 per cent recorded in 2009-10. Due to the continuous increase in inflation, tightening of monetary policy at regular intervals by the Reserve Bank of India and slowdown in the global growth, the GDP is likely to register comparatively lower growth rate in 2011-12. India will continue to be one of the most attractive investment destinations across the globe.

**BUSINESS SCENARIO**

The Defence Industry in India is in its expansion cycle driven by the Modernisation plans and India's growing attractiveness as a defence sourcing hub. The opening up of the Defence production for the private sector and Foreign Direct Investment has attracted many large industrial houses and global aerospace companies to invest in the Defence sector and also to assume the role of system integrators. This will augment the policy of Government as well as your Company to indigenise the Defence production. The Company is fully geared up to meet the challenges in the emerging business scenario and has devised strategies to continue playing the lead role.

**FUTURE GROWTH / OUTLOOK**

The Company has put in place a number of measures & initiatives to not only maintain the growth trajectory, but also to improve the growth rate. The strategy is to achieve growth through a combination of our own initiatives and forging new partnerships with leading companies. Several agreements have been concluded for co-development and co-production of aircraft, engines and equipment with leading global aerospace companies with a view to not only meet the Defence requirements, but also to increase the level of Export.

With an order book position of ₹ 68265 crore and several new large projects on the anvil, *viz*. FGFA, MTA, HTT-40, LCH, LUH, MMRCA etc., the Company will continue to grow and improve its ranking in the global aerospace industry and break into the top twenty league of the aerospace companies in the World, in the near future.

*New Projects:*

The new projects launched during the year under review are:

FGFA

The Fifth Generation Fighter Aircraft (FGFA) programme commenced during the year under review with signing of the Preliminary Design (PD) Contract with the Russians in December 2010. The work on PD Phase, costing USD 295 Million and planned to be completed in 18 months, has commenced in February 2011. A team of HAL designers has been deputed to the SUKHOI Design Bureau, Russia for training / familiarisation.

MTA

The Multi-Role Transport Aircraft (MTA) project took off with the incorporation of the Joint Venture Company viz. Multi-Role Transport Aircraft Limited in December 2010. The project is envisaged as a co-design, co-development & co-production programme between the Indian and the Russian partners to meet the requirements of the Indian and Russian Air Forces. The project with an outlay of USD 600.7 Million will be funded equally by the Indian and Russian sides. The design team for the PD phase has been selected and will be deputed to Russia to jointly work with the Russian designers.

HTT-40

The Company has conceived the indigenous development of a basic turbo-prop trainer (HTT-40) to replace the existing Trainer Aircraft HPT- 32. The Project is under final stages of approval by the Government. The Aircraft is planned to be developed in a timeframe of 60 months. In anticipation of the approval, the Company has taken initiative and commenced the design & configuration studies and has made significant progress.

***Projects in the Pipeline***

The decision of the Government on Medium Multi Role Combat Aircraft (MMRCA) project is likely to be taken soon. Your Company will be manufacturing the Aircraft under license at its Bangalore facilities, for which planning activities have commenced.

***Current programmes***

- The Intermediate Jet Trainer (IJT) and Light Combat Aircraft (LCA) are in the final stages of development and certification cycle. The Company has concurrently launched production of these Aircraft.

- The development of the Light Combat Helicopter (LCH) is progressing well and the first engine ground run of TD-2 was completed during March 2011.

- The Mock-up evaluation and Design Freeze of the Light Utility Helicopter (LUH) and an exercise to identify a suitable engine is in progress.

- The current manufacturing programmes, viz SU-30 MkI, Hawk, ALH, DO-228, Cheetah, Chetak and their repair and overhaul would continue to fuel the growth in the short and medium term. The additional orders for Hawk and ALH which are under process would add strength to the order book of the Company and shore up the top line of the Company in the years to come.

***Technology Development***

On the technology development front, the focus is on indigenisation of systems through in-house development to increase self-reliance. HAL has collaborated with leading Indian and foreign organisations to develop indigenous products, Systems etc. and formed eleven Joint Venture Companies to develop new products and absorb new technologies.

The Plan for modernisation of Plant and Machineries is under constant review and is under updation taking into account the existing, new and future programmes. A high-level team has been constituted by the Board of Directors to oversee and review the Plan.

***Public-Private partnership***

The Company continues to encourage outsourcing through public-private partnership and has developed over 2000 vendors. HAL is nurturing small and medium enterprises by supporting them in meeting the stringent quality standards of the aerospace industry.

HAL, which started its outsourcing activity in the early nineties, has come a long way, wherein presently 20-25% of the total work content is outsourced every year. HAL is realigning its strategies in the area of Outsourcing. It is not only planning to enhance its outsourcing activity to around 30% of its work content but also to go up the value chain.

The Company has brought in a paradigm shift, wherein it has moved from a purchase-focused organization with controls and validation oriented systems and procedures for all its purchases, to partnership building through a well defined architecture. This would enable the Company to realize the shift to the role of an assembler / integrator of the flying platforms and focus on manufacturing would be shifting to HAL's partners / suppliers. The Company would continue to retain the core technologies and concentrate on the design and development activities.

***Research and Development***

Research and development (R&D) continues to be a priority area. In the prevailing scenario, acquisition of the latest technologies is becoming increasingly difficult due to strategic denials or exorbitant cost. Your Company will continue to develop new products, systems, and equipment through in-house as well as collaborative R&D, for which the Company is committed to sink in sufficient funds. During the year under consideration, the R&D expenditure was ₹ 987 crore.

**CORPORATE GOVERNANCE**

Your Company believes that Corporate Governance and Disclosures go beyond mandated legislation. The Company has established systems and procedures to ensure that its Board of Directors is well informed and well equipped to fulfill its overall responsibilities and provide the Management with the strategic direction needed to create long-term shareholders value. The Company, though not a listed entity, has adopted the guidelines meant for the listed companies as a good Governance practice.

**SUSTAINABLE DEVELOPMENT**

Though the concept of sustainable development has become popular recently, your Company as a responsible public sector organisation has been focusing on environment protection, conservation of natural resources, welfare of employees and society at large. The Company as part of its CSR activities has implemented several schemes in the areas located adjacent to the Divisions / Units to improve quality school education, primary healthcare, horticultural activities, sewage treatment plant, rain water harvesting, and planting of saplings.

Recently, a high-level committee headed by an Independent Director has been constituted to enlarge the scope and monitor implementation of the Corporate Social Responsibility measures.

**HUMAN RESOURCE DEVELOP-MENT**

The industry in which the Company operates requires highly skilled and trained people. HAL, being the only aerospace company in India, is regularly inducting fresh graduates and training / grooming them to occupy responsible positions. The Company recognises that talent management, especially retention of skilled manpower, is a constant challenge in the dynamic job market / environment. The Company's HR Policies are constantly reviewed to attract and retain the talent.

**ACKNOWLE-DGEMENT**

I would like to end by thanking all the stakeholders. I, on behalf of the Board and the Company, convey my sincere thanks to all the Shareholders for their continued trust and confidence in the Management of the Company. I also convey my sincere thanks to the Ministry of Defence, Department of Defence Production, Defence Acquisition and Defence Finance, Department of Civil Aviation, our esteemed customers *viz.* the Indian Air Force, Army, Navy & Coast Guard and others in our Country and around the globe for their continued interest and confidence in the Company.

I acknowledge the patronage of the external agencies *viz.* DGAQA, CEMILAC, Principal Director Commercial Audit, C&AG Statutory and Branch Auditors, Legal Advisors, Collaborators and Partners, Suppliers, Bankers, and other Government Agencies for their support.

I am grateful to my colleagues on the Board for their valuable guidance. I take this opportunity to place on record appreciation for the dedication and commitment displayed by the Employees at all levels.

Place : Bangalore (Ashok Nayak)
Date : 12th September 2011 Chairman

# DIRECTORS' REPORT

To,

The Members of HAL

Dear Members,

I take great pleasure in presenting the 48th Annual Report of the Company for the financial year ended on 31st March 2011 along with the Audited Statement of Accounts, Auditors' Report and the Report on the Accounts by the Comptroller and Auditor General of India.

## OPERATING RESULTS

2. During the year 2010-11, your Company has performed exceptionally well in terms of growth and profitability. The Company achieved the highest ever turnover of Rs. 13,115.50 crore, an increase of 14.48 per cent over the previous year and Profit Before Tax of Rs. 2,839.52 crore as compared to Rs. 2,688.43 crore in the previous year.

3. The financial highlights of the performance during 2010-11 are summarised below: -

(Rs. in crore)

| PARTICULARS | 2010-11 | 2009-10 |
|---|---|---|
| Turnover | 13,115.50 | 11,456.70 |
| Exports | 237.39 | 204.67 |
| Profit Before Tax | 2,839.52 | 2,688.43 |
| Provision for Tax | 725.27 | 721.02 |
| Profit After Tax | 2,114.26 | 1,967.41 |
| R&D Expenditure | 986.96 | 832.12 |
| APPROPRIATION | | |
| Interim Dividend on Equity Shares | 299.95 | 299.95 |
| Proposed Final Dividend on Equity Shares | 123.17 | 93.53 |
| Total Dividend | 423.12 | 393.48 |
| Tax on Dividend | 69.44 | 66.87 |
| General Reserve | 1,621.70 | 1,507.06 |

## DIVIDEND

4. The Board of Directors had declared payment of Interim Dividends of Rs. 48.20 crore and Rs. 251.75 crore based on the half yearly and nine-monthly operations respectively, in all amounting to Rs. 299.95 crore.

5. A final Dividend of Rs. 10.22 per share on 12,05,00,000 equity shares of Rs.10/- each for the year 2010-11 was recommended by the Board of Directors, bringing the total Dividend to 351.13 per cent on the paid up equity capital.

6. A table showing the dividends paid by the Company on equity shares for the years 2010-11 and 2009-10 is given below:-

| Particulars | Number of Shares | 2010-11 | | | | 2009-10 | |
|---|---|---|---|---|---|---|---|
| | | Dividend per share of Rs.10/- in Rs. | Dividend amount (Rs. cr.) | Dividend Tax (Rs. cr.) | Total outflow (Rs. cr.) | Dividend per share in Rs. | Total outflow including Dividend Tax (Rs. in cr.) |
| First Interim Dividend | 12,05,00,000 | 4.00 | 48.20 | 8.00 | 56.20 | 4.00 | 56.40 |
| Second Interim Dividend | 12,05,00,000 | 20.89 | 251.75 | 41.82 | 293.57 | 20.89 | 294.53 |
| Sub-Total | | 24.89 | 299.95 | 49.82 | 349.77 | 24.89 | 350.93 |
| **Final Dividend** | 12,05,00,000 | 10.22 | 123.17 | 19.62 | 142.79 | 7.76 | 109.42 |
| TOTAL | | 35.11 | 423.12 | 69.44 | 492.56 | 32.65 | 460.35 |

7. The total outflow as Dividend on the equity shares of the Company excluding the Dividend Tax for the year 2010-11 translates to 20 per cent of the Profit After Tax.

## TRANSFER TO RESERVES

8. Your Company proposes to transfer Rs. 1,621.70 crore to the General Reserve out of the amount available for appropriations.

## PERFORMANCE AGAINST MOU

9. Your Company has been signing a Memorandum of Understanding (MOU) with the Ministry of Defence (MoD) every year with regard to achieving the desired level of performance. The performance for the year 2009-10 was rated as 'Excellent'. The rating for the year 2010-11 is under evaluation and your Company is likely to be adjudged as 'Excellent' once again. The

Company has continued its journey of excellence for the $10^{th}$ year in its performance against the MOU with the Government.

## CREDIT RATING / FINANCE

10. The Company has been able to meet its entire fund requirement towards capital investments and additional working capital needs without resorting to borrowings, through efficient management of funds. The Company continued to maintain the highest credit rating of both, short-term as well as long-term debt programmes, for Rs. 450 crore each from the Investment Information & Credit Rating Agency (ICRA) and Credit Rating Information Services of India Limited (CRISIL).

11. Although HAL is a 'Zero-Debt' Company, it has been availing Cash Credit facility from the Bankers to meet its short-term requirements from time to time. This credit rating has enabled the Company to source funds at the best possible rates, thereby improving the profitability. The cash and bank balances, including short-term deposits at the end of the year under review stood at Rs. 20,099.32 crore against Rs.18,657.64 crore of the previous year.

## SIGNIFICANT ACHIEVEMENTS

12. The following are the significant achievements of your Company:-

- The Company produced its highest number of new aircraft and helicopters (78) along with engines and accessories. This is double the average production of the last ten years. The production encompasses Su-30MKI, Hawk, Advanced Light Helicopter (ALH), Dornier (DO) -228, Cheetal, Chetak and Limited Series Production (LSP) of the Light Combat Aircraft (LCA) and Intermediate Jet Trainer (IJT).

- Technology absorption was successfully completed for production of Su-30 MKI following the raw material phase, and the first aircraft from Phase IV was produced during the year.

- Initial Operation Clearance (IOC) for ALH Mk.III Utility variant for the Indian Army and Indian Air Force (IAF) was obtained and the first batch of helicopters was delivered to the customer.

- On the Design and Development front, a major milestone was achieved with Initial Operation Clearance for LCA (IOC Phase-I). The first Naval Prototype, NP-1, rolled out of LCA hangar in the presence of the Hon'ble Raksha Mantri Shri A.K. Antony.

- The first block of basic flight evaluation covering 48 developmental flights on the first Light Combat Helicopter (LCH) Technology Demonstrator (TD-1) was completed during the year.

- The design and development activities on Light Utility Helicopter (LUH) have progressed as envisaged with the completion of 'Mock-up evaluation' and 'Design Freeze' with concurrence from the Army and Air Headquarters.

- Another milestone in the Design and Development is the completion of Critical Design Review (CDR) for the Jaguar Darin-III upgrade program.

- To enhance self-reliance and to overcome obsolescence, 3,200 types of spares and equipment of aircraft/engine/accessories were indigenised during the year. The projected Foreign Exchange saving is of the order of Rs. 53 crore per annum.

**ORDER BOOK**

- The order book position of the Company for new aircraft / helicopters is healthy with firm orders for Su-30MKI, Hawk, Dornier, LCA, IJT, ALH and Chetak worth Rs. 68,265 crore. Major orders were received for Hawk worth Rs. 9,500 crore and LCA worth Rs. 5,989 crore during the year.

**EXPORT**

13. The Company has been showcasing its products and capabilities by participating in leading international air shows, viz. Farnborough Air Show 2010, Africa Aerospace & Defence 2010, Aero India 2011, Indo Defence Expo Forum 2010, Jakarta, Indonesia and IISAREX 2011, Jakarta, Indonesia.

14. Export orders worth Rs. 352 crore were booked during 2010-11, which included orders for supply of Avionics for Su-30 MK to Rosoboronexport, Russia, supply of spares, services and technical assistance to Malaysia towards maintenance of Helicopters and Aircraft.

15. The Company aspires to develop new customers and new engineering packages and is currently in discussion with major aerospace companies on various identified work-packages to forge long term partnerships and achieve a steady growth in export.

**OFF-SET PLAN**

16. The Company has concluded MOUs with Original Equipment Manufacturers (OEMs) who are participating in acquisition programme by the MoD to maximise business opportunities through off-set programmes. The Company is making efforts to increase its exports by utilising the opportunities arising out of planned defence acquisitions of the Government of India with off-set obligations.

**OUTSOURCING**

17. The Company continued to pursue the policy on outsourcing to develop Vendors for major sub-assemblies and Tooling / components with a view to rationalise its resources.

18. During the year under review, purchases to the tune of Rs.220 crore were made from 358 Small Scale Units.

19. Further, with a view to develop indigenous capabilities and capacity in the high-tech field of aviation, the Company has established 11 Joint Ventures (JVs) with leading international as well as domestic companies in allied areas.

**Research & Development (R&D)**

20. Research and Development is the key to long term success of any industry. Your Company has established 10 R&D centers co-located with the production units which are engaged in development of new products and several Upgrade Programmes. An expenditure of Rs. 986.96 crore was incurred on various R&D projects as compared to Rs. 832.12 crore in the previous year.

21. Significant progress was made on the following Development Projects during the year as per details given below:-

INTERMEDIATE JET TRAINER (IJT)

22. Design and development activity of the IJT continued. Design changes to the fuselage were completed on fast track after the strength Test Specimen withstood loading upto 120% against the requirement of 150% (equivalent to 10.5 ‘g’). The flight test on the prototype was resumed in December 2010 after strengthening the fuselage. Post modification strength test was successfully completed in January 2011. The fuselages of the Limited Series Production aircraft also have been strengthened through retro-modifications. The Spin trials and Stores Integration (Drop Tanks, Gun, Bomb and Rocket pod) are under progress.

23. Extensive flight trials of AL55I Engine were carried out leading to its certification on IJT aircraft.

24. Ground streaming of Anti Spin Parachute System has been completed satisfactorily. Spin testing, Night flying and Sea Level testing are expected to be completed during 2011.

LIGHT COMBAT AIRCRAFT (LCA)

25. Your Company is a major partner of the Aeronautical Development Agency, the nodal agency for design & development of the Light Combat Aircraft (Tejas).

26. The IOC of the LCA was obtained on 10th January 2011. As part of the flight test program towards IOC, Hot Weather Trials at Nagpur, Sea Level Trials at Goa, Weapons and Drop Tank Jettison at Chitradurga were successfully completed in 2010.

27. India's first Naval Light Combat Aircraft, the LCA (Navy) NP1, rolled out from the hangars of HAL on 6th July 2010 in the presence of the Hon'ble Raksha Mantri, Shri A.K. Antony.

ADVANCED LIGHT HELICOPTER (ALH)

28. The Company continues to develop / upgrade the ALH. For the Mk. III Utility variant, the Initial Operation Clearance (IOC) was obtained for delivery to the IAF and Army. Major tasks completed on Mk.III during the year are:

- IOC for the Shakti engine
- Flight evaluation of Mission sensors Electronic Warfare (EW) Suite / Integrated Self Protection System (ISPS), Electro Optical Pod (EO Pod), Flare and Chaff Dispenser (FCD) Helmet Pointing System (HPS)
- Demonstration of Interchangeability (ICY) of major structural components
- Maintenance Evaluation trials

29. Development of Mk-IV, the armed variant of the ALH, i.e. with Weapons (Rocket, Turret gun and Air-to-Air Missile) has progressed well. The systems have been integrated on a Shakti engine powered helicopter. The IOC is expected by December 2011.

LIGHT COMBAT HELICOPTER (LCH)

30. The Light Combat Helicopter (LCH), a dedicated attack Helicopter developed by HAL made its maiden flight in March 2010. The helicopter features a narrow fuselage and tandem seating for the Pilot and Co-Pilot. A total of 66 flights were carried out on the First Technology Demonstrator including 48 developmental flights of basic flight evaluation (Block-1). The Second Technology Demonstrator, TD-2, has been built with weight-reduced parts and optimised transmission system.

Several design changes based on TD-1 flight evaluation have been incorporated in the TD-2. The first engine ground run of TD-2 completed during March 2011.

LIGHT UTILITY HELICOPTER (LUH)

31. To develop indigenously a reconnaissance and surveillance helicopter, the Company had launched development of the LUH, a 3 tonne helicopter in 2009. The Mock-up evaluation and Design Freeze have been completed. During the Design Freeze review, the power requirement of the engine has been updated and an exercise to identify a suitable engine is in progress.

Jaguar DARIN III Upgrade Programme

32. The programme to upgrade the Jaguar Aircraft to DARIN III standard has progressed satisfactorily. The Critical Design Review (CDR) was completed in September 2010 (2$^{nd}$ CCS milestone) and design work on Avionics, Mechanical, and Electrical systems along with Software have been completed. Three aircraft have been inducted for the modifications. The progress of modification work on the first aircraft (Maritime version) has been on target and the first flight on the aircraft is planned for September 2011.

**NEW PROJECTS**

MULTIROLE TRANSPORT AIRCRAFT (MTA)

33. Your Company has formed a new Joint Venture Company (JVC) called "Multirole Transport Aircraft Limited" on 1$^{st}$ December 2010 with the Russians for co-design / co-development of the Multirole Transport Aircraft.

34. The work share of HAL and the Russians and the Business Plan were discussed in March 2011 with UAC-Transport Aircraft (UAC-TA). The HAL Design Team (60 personnel) for Preliminary Design Phase comprising designers from the R&D Centres (ARDC, TARDC, MCSRDC, ETBRDC, SLRDC & ASERDC) has been finalised. The Designers have undergone language training in Russian prior to their deputation to Russia for participation in the design phase.

PROSPECTIVE MULTI-ROLE FIGHTER AIRCRAFT (PMF)

35. Prospective Multi-Role Fighter aircraft (PMF), a Fifth Generation Fighter Aircraft (FGFA) will be jointly developed by the Hindustan Aeronautics Limited and the Sukhoi Design Bureau (SDB) and Rosoboronexport (ROE) of Russia. The new generation fighter aircraft will be equipped with features like stealth, high-technology avionics and ultra manoeuvrability.

36. The Project was launched during the year with signing of the Preliminary Design (PD) contract between HAL, ROE & SDB on 21st December 2010.

37. HAL has envisaged and identified various areas for possible support from DRDO and other defence organisations like NAL, BEL and BDL.

38. A Joint Coordination & Programme Management Committee has been constituted with members from MoD, HAL, DRDO, NAL, CEMILAC and the Air Force from the Indian side and SDB & ROE from Russian side to review the progress and co-ordinate efforts with all agencies.

Basic Turboprop Trainer Aircraft (HTT-40)

39. Your Company had submitted a proposal for design and development of a basic turboprop trainer aircraft to the Air Headquarters for replacing the existing HPT-32 with the new aircraft designated as HTT-40.

40. The estimated design and development cost is Rs. 568.09 crore with a development timeframe of 60 months. Significant progress has been made in the following areas pending CCS approval for the Project:-

- Configuration studies and sizing
- Structural and system layouts and structural design concepts
- Wind tunnel model design
- Engine and Propeller specification requirement

## JOINT VENTURES / STRATEGIC ALLIANCES

41. During the year under review, your Company has incorporated two new JVCs i.e. 'International Aerospace Manufacturing Private Limited' incorporated on 16th July 2010 with Rolls Royce, UK for manufacture of Shrouds and Compressor casing as 50:50 JVC. The investment of USD 9.65 million, i.e. Rs.46.32 crore would be made by HAL towards a 50 per cent stake in the JVC.

42. "Multirole Transport Aircraft Limited"(MTA) was incorporated on 1st December 2010 for co-design, co-development and manufacture of Multirole Transport Aircraft (MTA) at total investment of $600.70 million (Rs.2,883.36 crore) with equal shareholding between HAL and the Russian side, viz. UAC-TA and Rosoboronexport.

43. These JVCs are in the process of creating the infrastructure to commence the activities.

44. Performance (provisional) of other nine JVCs promoted by your Company is summarised here below:-

BAe HAL Software Limited

45. BAeHAL Software Limited set up in February 1993 is engaged in the development of software for the international market. During the year 2010-2011, the JVC achieved a turnover of Rs. 3065.52 lakh with Loss of Rs. 417.26 lakh. The order book position as on 31st March 2011 is Rs. 3,957.47 lakh.

Indo Russian Aviation Limited

46. Indo Russian Aviation Limited (IRAL) was set up in September 1994 to source spare parts for the repair & overhaul of equipment pertaining to aircraft / engine / accessories of Russian origin. During the year 2010-11, the JVC has achieved a turnover of Rs. 4,537.40 lakh with Profit before Tax of Rs. 871.00 lakh. The order book position as on 31st March 2011 is Rs. 6,614.00 lakh.

Snecma HAL Aerospace Private Limited

47. SNECMA HAL Aerospace Private Ltd. was set up in October 2005 as an Export Oriented Unit to manufacture and supply engine parts to Snecma, France. Snecma (SAFRAN Group) and HAL hold equal share in the JVC. It has reported a turnover of Rs.2,691.00 lakh and Profit Before Tax of Rs. 299.00 lakh during the year 2010-11. The order book position of the JVC as on 1st January 2011 is Rs.565.47 lakh.

Samtel HAL Display Systems Limited

48. The JVC was incorporated on 25th January 2007 with an objective to develop and manufacture new generation of Multi Functional Display (MFD), Head Up Display (HUD), Helmet Mounted Display (HMD) for the Indian aircraft and later to diversify into civil and industrial sectors.

49. The JVC has successfully developed colour MFD for Su-30 MKI aircraft and commenced commercial production. The JVC has reported a turnover of Rs.1,908.41 lakh and a Profit Before Tax of Rs.40.71 lakh. The order book position of the JVC as on 31st March 2011 is Rs.4,086.80 lakh.

HAL Edgewood Technologies Private Limited

50. HAL-Edgewood Technologies Private Limited was established in April 2007 with the main objective to develop and manufacture high technology miniature electronic modules and avionic system for aerospace applications. The JVC commenced its operations by undertaking design and development of Open System Architecture Mission Computer (OSAMC) for DARIN III

Program. The system has been successfully developed by the JVC and is presently undergoing testing for Certification. The JVC has simultaneously launched limited series production of OSAMC.

51. In view of the delay in Certification, the JVC has reported a loss of Rs. 174.02 lakh during the year under review. The order book position of JVC as on 31st March 2011 is at Rs.1,263.23 lakh.

HALBIT Avionics Private Limited

52. HALBIT Avionics Private Ltd., a joint venture between HAL, Elbit Systems Limited, Israel and Merlinhawk Associates Pvt. Ltd., India, was established in May 2007 with the main objective to design, develop and manufacture simulators and avionic products. It has reported a turnover of Rs.663.76 lakh and Loss of Rs.165.37 lakh in 2010-11.

Infotech HAL Limited

53. The Joint Venture with Infotech Enterprises Limited was incorporated on 23rd August 2007 with the main objective to create a state-of-the-art design centre for aero-engines and to take up design and engineering services in the field of aero-engines and technical publications. HAL and Infotech hold equal stake in the JVC.

54. The JVC has reported a turnover of Rs.174.80 lakh and Profit Before Tax of Rs.2.26 lakh. The order book position of the JVC as on 31st March 2011 is at Rs.46.85 lakh.

TATA HAL Technologies Limited

55. The JV with TATA Technologies with 50:50 equity holdings was established in May 2008 to provide engineering design services in aero structures and captive offshore and onsite work load from the Original Equipment Manufacturers (OEMs), including offset programme.

56. The JVC has reported a turnover of Rs.334.63 lakh and loss of Rs.57.25 lakh. The order book position as on 31st March 2011 was at Rs. 399 lakh excluding Letter of Intent from Tata Advance Systems for Piaggio Aero, Italy, for centre fuselage design to build work package to the tune of Rs. 3,450.00 lakhs,

HATSOFF Helicopter Training Private Limited

57. HATSOFF Helicopter Training Private Ltd. a joint venture between HAL and CAE, Canada with 50:50 equity holdings, was established in January 2008. The main objective of the JVC is to provide military and civil helicopter training services through operation of flight training device viz. Full Mission Simulator with the following cockpits:

- Bell 412 EP version
- Dhruv glass cockpit Army-IAF version (including WSI)
- Dhruv civil version
- Dauphin AS 365-N3-version

58. The JVC has commenced its training operations with the establishment of simulator of Bell 412 EP helicopter and has reported a turnover of Rs.179.16 lakh and loss of Rs.792.59 lakh. The order book position as on 31st March 2011 is at Rs. 324.59 lakh.

**QUALITY INITIATIVES**

59. ISO-9001-2000 QMS Certification has been obtained by all the Divisions of your Company. To meet the International Aviation Quality Management System (QMS) standards and for future growth of exports, eight Divisions have obtained the AS 9100 Aerospace Quality Management System certification, while four Divisions have obtained the National Aerospace ^ Defence Contractors Accreditation Programme(NADCAP) certification (USA) for special processes such as Non Destructive Test(NDT), Heat Treatment, and Welding. The certification not only enhances the image of the Company, but also improves the export prospects.

60. The Divisions have maintained the currency of QMS approvals from international aerospace companies like Boeing, Airbus, Rolls Royce, Snecma, BAe Systems and Israeli Aircraft Industries, who are leading global aerospace players.

61. In addition, the Divisions have implemented the requirements of ISO 14001 – 2004 EMS standard with respect to Environmental Management System and obtained the certification.

62. Your Company is continuously striving to maintain the enthusiasm of the Quality Circles (QC) to increase employee participation in problem-solving efforts, besides promoting self-development and synergy at the workplace.

## HR DEVELOPMENT

63. The manpower strength of the Company marginally reduced to 33,681 as on 31st March 2011 from 33,990 as on 31st March 2010, resulting in a net decrease of 309 personnel. Inductions were planned taking into consideration the workload and the age profile of the existing employees.

64. Opportunities were provided to Officers to enhance their knowledge and competencies by way of sponsorship for Post Graduate Programmes, at Cranfield University, UK, Management Development Institute(MDI), Gurgaon, International Management Institute(IMI), Delhi and the Indian Institute of Technoology(IITs) at Kanpur, Kharagpur, Madras and Roorkee. During the year 2010-11, 51 Officers were sponsored for such programmes.

65. During the year, a total of 2,583 Apprentices (including diploma holders and engineering graduates) completed their training while 2,937 Apprentices were undergoing training under the Apprentices Act 1961.

66. With a view to motivate and improve efficiency and productivity, the Company formulated and implemented Variable Pay under the "Performance Related Pay (PRP) Scheme" for the executives in place of the existing Profit Linked Incentive (PLI) Scheme and the Performance Improvement Plan (PIP) Scheme with effect from the year 2009-10. Payment under the Scheme is linked to a combination of factors such as individual performance of the executive, Divisional performance and organisational performance and would be met from the profits of the Company.

## REPRESENTATION OF SC/ST

67. The position regarding representation of Scheduled Castes/ Scheduled Tribes (SCs / STs) is as follows:

## REPRESENTATION OF SCs & STs IN THE TOTAL STRENGTH OF THE COMPANY AS ON 1st JANUARY 2010 AND 1ST JANUARY 2011

| Category (Grade / Scale of Pay) | Total strength as on | | Number of SCs as on | | Number of STs as on | |
|---|---|---|---|---|---|---|
| | 1.1.2010 | 1.1.2011 | 1.1.2010 | 1.1.2011 | 1.1.2010 | 1.1.2011 |
| A. (Grade-II and above) | 8,057 | 8,141 | 1,438 | 1,454 | 451 | 450 |
| B. (Grade-I) | 1,825 | 1,560 | 301 | 265 | 108 | 95 |
| C. (Scales-3 to10) | 24,387 | 23,820 | 4,281 | 4,166 | 1,575 | 1,582 |
| D. (Scales -1 & 2) | | | | | | |
| i) Excluding Safai Karamcharis | 49 | 36 | 15 | 15 | 3 | - |
| ii) Safai Karamcharis | 3 | 2 | 2 | 1 | - | - |
| TOTAL | 34,321 | 33,559 | 6,037 | 5,901 | 2,137 | 2,127 |

## RECRUITMENT MADE DURING THE PERIOD 1ST JANUARY 2010 TO 31ST DECEMBER 2010 AND THE SCs, STs AMONGST THEM

| Category (Grade / Scale of Pay) | Total number of posts filled | Number of Reservations made for | | Number of posts filled by appointment of | |
|---|---|---|---|---|---|
| | | SCs | STs | SCs | STs |
| A. (Grade-II and above) | 73 | 12 | 04 | 13 | 04 |
| B. (Grade-I) | 32 | 05 | 02 | 04 | - |
| C. (Scales 3 to SS) | 519 | 81 | 68 | 94 | 81 |
| D. (Scales 1 & 2) | | | | | |
| i) Excluding Safai Karamcharis | 01 | - | - | - | - |
| ii) Safai Karamcharis | - | - | - | - | - |
| TOTAL | 625 | 98 | 74 | 111 | 85 |

PROMOTIONS MADE DURING THE PERIOD
1ST JANUARY 2010 TO 31ST DECEMBER 2010 &
SCs, STs AMONGST THEM

| Category (Grade / Scale of Pay) | Total number promot-ed | Number of reservations made for | | Number of posts filled by promotion of | |
|---|---|---|---|---|---|
| | | SCs | STs | SCs | STs |
| A. (Grade – II and above) | 1,415 | 04 | 01 | 264 | 84 |
| B. (Grade – I) | 118 | 18 | 03 | 27 | 02 |
| C. (Scales 3 to SS) | - | - | - | - | - |
| D. Wage Group – A (Scales 1 & 2) | | | | | |
| i) Excluding Safai Karamcharis | - | - | - | - | - |
| ii) Safai Karamcharis | - | - | - | - | - |
| TOTAL | 1,533 | 22 | 04 | 291 | 86 |

**EMPLOYEE RELATIONS (ER)**

68. The Company has put in its best efforts to maintain meaningful and effective communication between the Management and the employees to reduce and progressively eliminate any scope of differences and conflict, resulting in better appreciation of each other's point of view and to facilitate maintenance of industrial harmony. The HR Policy of the Company has contributed effectively for the establishment of mutual trust and understanding between the Management and the employees. The Management holds quarterly meetings with the representatives of the Recognized Unions/Officers' Association of the Company. This has ensured confidence building among the employees and better understanding.

69. In order to ensure an increased involvement of the employees in decision-making processes, various forums for worker participation viz. Plant and Shop-level Committees, Bipartite Forums, Quality Circles, and Suggestion Schemes have been revitalised in the Company.

70. Several welfare measures have introduced to provide Medical facilities, housing, transport, uniforms, sports facilities, maintenance of townships and education facilities for the employees' children.

## CORPORATE SOCIAL RESPONSIBILITY (CSR)

71. The Board of Directors of the Company has approved the CSR Policy formulated as per the guidelines of the Department of Public Enterprises (DPE), in order to systematically implement various schemes for the benefit of the Society. A Committee under the chairmanship of an Independent Director has been constituted to implement the CSR Policy.

72. Over the years, the Company has been undertaking various community development activities in the vicinity of its Divisions. The main activities include adoption of Villages and developing the Villages in and around the location where HAL Divisions are located, by providing resources like infrastructure, health, and education. The Company also provides educational facilities, medical facilities, drinking water facilities, approach roads, maintaining parks, streetlights, organising family planning and health awareness camps for the residents of these Villages.

## RAJBHASHA IMPLEMENTATION

73. HAL is committed to comply with the Official Language policies of the Government of India. Your Company continued its efforts to propagate use of Hindi in official work and comply with the Official Language Act 1963 and Official Language Rules 1973.

74. With a view to encourage use of Hindi and to create a congenial atmosphere for implementation of the Official Language Policy, the "Hindi Utsav" is organised on a biennial basis in the Company. Workshops on Hindi computer training, translation, and pronunciation training were organised during the year. Around 12,473 employees have already acquired working knowledge of Hindi in the Company.

## CONSERVATION OF ENERGY, TECHNOLOGY ABSORPTION, FOREIGN EXCHANGE EARNINGS AND OUTGO

75. The Company has been exempted by the Government from compliance of the provisions of the Company Law regarding disclosure of certain particulars viz. conservation of energy, technology absorption, foreign exchange earnings and outgo in the Report of Board of Directors, as per clause (e) of Sub-section (1) of Section 217 of the Companies Act, 1956 read

with the Companies (Disclosure of particulars in the Report of Board of Directors) Rules, 1988.

**COMPUTERISATION & ENTERPRISES RESOURCE PLANNING**

76. Enterprises Resource Planning (ERP) has been implemented across the organisation with the exception of the Barrackpore Division.

77. Implementation of ERP in 10 new profit centres commenced in the previous year. Implementation has been completed in Helicopter – MRO and Composite Manufacturing Division.

78. As part of e-governance, initiative has been taken to implement e-procurement in the Company. Action has also been taken to establish a tier-II level data centre at Bangalore.

**AWARDS & RECOGNITIONS**

79. The Company has received the following awards / recognitions during the year:

- *MOU Excellence Award* for the year 2008-09 (Top Ten Public Sector Enterprises). The Company has been receiving this award consecutively since 2001-2002.

- *Raksha Mantri's Award for Excellence* for the year 2008-09 under "Institutional" category.

- On 8th February 2011 Hon'ble Raksha Rajya Mantri(RRM) presented the International Aerospace Awards (instituted by SAP Media Worldwide Limited) as a mark of recognition to the Indian Industry for excellence in innovation, indigenous technology and entrepreneurship under the following categories:-
  - Outstanding contribution to the Defence Industry
  - Most influential Company of the year
  - Excellence in Indigenous Technology
  - Excellence in Export

- Golden Award for Quality and Business Prestige from Otherway Management Association Club, France.

- At Divisions level, Engine Division, Bangalore Complex was awarded the Rajiv Gandhi National Quality Awards 2009 by the Bureau of Indian Standards, New Delhi, as a commendation for Large Scale Manufacturing Industry-Engineering & Others.

- Aerospace Division, Bangalore Complex was awarded Gold Medal by the Society of Aerospace Manufacturing Engineers (SAME) for the year 2010 for outstanding contribution in the field of Aerospace Manufacturing.

- Foundry & Forge, Bangalore Complex was awarded Casting of the Year award 2010 for Main Gear Box (MGB) Housing for ALH from the Institute of Indian Foundrymen.

- In individual category, Shri G.C. Bhawanani, Chief Supervisor, HAL-TAD Kanpur, was conferred the prestigious "Shram Shree" Award for 2006 by the Hon'ble Prime Minister of India on 15th September 2010.

- Shri Mohan Lal, Chief Supervisor of Accessories Division, Lucknow was awarded Prime Minister's Sharam Vir Award by the Ministry of Labour, Govt. of India.

## VIGILANCE

80. In pursuance of its focus on Preventive Vigilance, the Department has launched a fortnightly bulletin "V2", which encapsulates one topic in its entirety to give the reader a total perspective on the Company Rules, Policies and other Guidelines. The response has been overwhelmingly positive and is being seen as a platform to create awareness such that inadvertent errors/oversights do not happen while discharging duty.

81. There has been a continued emphasis on detection and identification of systemic infirmities, which create losses. As such, studies were carried out in the areas of Freight & Insurance Charges, Outsourcing, Sub-contracting of Tooling & Components, Appointment of Consultants, Vigilance Clearance, e-Procurement, Medical matters, Procurement of Materials etc. The Department made recommendations / suggestions to the Management and fresh guidelines have been issued wherever necessary.

82. During the year, 1,253 routine / surprise checks were carried out and issues requiring intervention by the Management were communicated to them. With a view to broaden the competition, encourage wider participation and provide a level playing field, registration of vendors has been a focus. Also, keeping in view the changing climate of speed in delivery, reduction in procurement and production time, the Department has focused its efforts on implementing ERP.

83. The Vigilance Department has been accredited as ISO 9001-2008 certified on 23rd July 2010 for a duration of three years.

## INTEGRITY PACT

84. Integrity Pact (IP), a vigilance tool conceptualised and promoted by the Transparency International has been suggested for implementation in PSUs in large value transaction by the Central Vigilance Commission (CVC).

85. Your Company has adopted and implemented the IP and a clause has been introduced in the Purchase Manual accordingly.

86. Pre-contract IP is a binding agreement between the Company and bidders for a specific contract in which the Parties promise that it will not resort to any corrupt practices in any aspect / stage of the contract.

87. The CVC has appointed two Independent External Monitors (IEM's) to monitor and review the compliances / obligation under the IP.

## RISK MANAGEMENT POLICY

88. The Company has well laid down systems, procedures, guidelines, manuals in various areas providing for management of risks.

89. The Company has identified potential risk areas and in built checks have been put in place to mitigate the risks, including the following:-

- Business risks,
- Environmental risks
- Govt. Policy risks
- Changes in technology risks
- Foreign currency fluctuation risks
- Supply chain risks
- Political risks
- Industrial espionage risks
- Information technology risks
- Competition risks
- Terrorists risks,
- Fire, theft, earthquakes, other natural calamities, riots etc.

## BOARD OF DIRECTORS

90. The following changes took place in the Directorship of the Company:-

91. Four Independent Directors, namely Shri Ajay Shankar, Shri V.V.R. Sastry, Shri Surendra Kumar and Prof. (Dr.) R. Venkata Rao were appointed with effect from 9th March 2011.

92. Smt. Anuradha Mitra, Addl. FA & JS ceased to be Director with effect from 11th June 2010 and Shri P.K. Kataria, Addl. FA(K) & JS was appointed in her place with effect from 12th July 2010.

93. Shri Sanjeev Sahi Director (HR) and Shri D. Shivamurti Director (Finance) ceased to be Directors with effect from 9th April 2010 and 3rd March 2011 respectively.

94. Shri R. Srinivasan, Managing Director (Helicopter Complex) was transferred as Director (HR) with effect from 17th September 2010 and has superannuated with effect from 31st May 2011.

95. Shri P. Soundara Rajan Director (Corporate Planning & Marketing) has been transferred to the Helicopter Complex as Managing Director with effect from 17th September 2010 and assigned additional charge as Director (Corporate Planning & Marketing).

96. Shri N. C. Agarwal , Director (Design & Development) ceased to be Director with effect from 1st July, 2011 on attaining the age of superannuation.

97. Shri V. M. Chamola has been appointed as Director(HR) w.e.f. 27.7.2011. Sqn. Ldr.(Retd.) Baldev Singh has been appointed as Director(Corporate Planning & Marketing) w.e.f 16.8.2011. Shri K. Naresh Babu has been appointed as Managing Director (Bangalore Complex) w.e.f. 6.9.2011 vice Shri D. Balasunder who superannuated on 31.8.2011.

98. The posts of Director (Finance) and Director(D&D) are vacant. Action has been initiated by the Government to fill up the vacancies.

## DIRECTORS' RESPONSIBILITY STATEMENT

99. Pursuant to Section 217 (2AA) of the Companies Act 1956, your Directors confirm that: -

- In the preparation of the Annual Accounts, 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 judgements and estimates that were reasonable and prudent so as to give a true and fair view of the state of affairs of the Company at the end of the financial year and of the Profit or Loss of the Company for the year under review.

- The Directors have taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of the Companies Act 1956, for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities.

- The Directors have prepared the Annual Accounts for the financial year ended 31$^{st}$ March 2011 on a 'going concern' basis.

## AUDITORS

100. M/s. K. P. Rao & Company, Chartered Accountants, Bangalore were appointed as Statutory Auditors for auditing the Accounts of the Company for the year ended 31$^{st}$ March 2011 and 20 firms of Chartered Accountants were appointed as Branch Auditors.

## AUDITORS' REPORT

101. Auditors' Report on the Annual Accounts for the financial year 2010-11 and Comments of the Comptroller & Auditor General of India under Section 619(4) of the Companies Act, 1956 are appended to this Report.

## CORPORATE GOVERNANCE

102. A report on Corporate Governance along with Compliance Certificate by the Statutory Auditors of the Company i.e. M/s. K. P. Rao & Co, Chartered Accountants and Secretarial Compliance Certificate, as per the policy on Corporate Governance are annexed to this Report.

## MANAGEMENT DISCUSSION AND ANALYSIS REPORT

103. The Management Discussion and Analysis Report as per the Policy on Corporate Governance is annexed to this Report.

## PARTICULARS OF EMPLOYEES

104. As far as the information required under Section 217 (2A) of the Companies Act, 1956 read with Companies (Particulars of Employees) Rules is concerned, none of the employees was in receipt of remuneration of more than Rs. 5 lakh per month or Rs. 60 lakh per year during the year.

## ACKNOWLEDGEMENT

105. The Board gratefully acknowledges the support and patronage extended to the Company by the valued customers, in particular the Defence Services.

106. The Directors wish to place on record the support and co-operation received from the Government of India, Ministry of Defence, Department of Defence Production, Defence Acquisition and Defence Finance as well as other Ministries of the Government of India in all the endeavours of the Company.

107. The Directors express their sincere thanks to the Comptroller and Auditor General of India, the Principal Director of Commercial Audit & Ex-officio Member, Audit Board, Statutory Auditors, Auditors, Bankers, Collaborators, JV Partners and Suppliers for the co-operation extended and services provided by them.

108. Your Directors appreciate the dedicated efforts put in by the executives, staff and workers of the Company.

109. Your Directors would like to place on record their gratitude to the shareholders for the confidence reposed in the management of the Company.

For and on behalf of the Board of Directors

Place : Bangalore
Dated : 12th September, 2011

**ASHOK NAYAK**
**CHAIRMAN**

## Management Discussion & Analysis Report

### Industry scenario

1.1 The Defence Industry in India is on the threshold of an inflection point in its expansion cycle driven by the modernisation plans, increased focus on Home Land security and India's growing attraction as a "Home Market" defence sourcing hub. With a total defence allocation of Rs.1,47,344 crore for the year 2010-11, India is currently one of the largest defence spender in the world with the third highest growth rate.

1.2 The Defence industry in the country, hitherto dominated by the Defence Public Sector Undertakings (DPSUs), is undergoing a change with the opening up of the industry for private sector participation permitting 100 per cent private sector ownership and Foreign Direct Investment of up to 26 per cent. This has led to a paradigm shift in the structure of the Defence Industry in India.

1.3 It is estimated that 70 per cent of the equipment are imported and only 30 per cent are manufactured in India. The current policy initiatives display the Government's keenness to reverse this ratio and to strengthen the Aerospace and Defence (A&D) industry in the Country. The introduction of the concept of "Offsets" in the Defence Procurement Policy 2006 and reinforced in the subsequent revisions has opened up new vistas with huge business potential to the Public/Private sector companies in the Country.

1.4 Many major industrial houses in the Country have diversified into the A&D sector. News of collaborations and tie-ups between the Foreign OEMs, who are the technology providers, and the Indian companies is common. It would not be an overstatement to say that the Indian A&D market is one of the most sought after destinations with all the global majors striving for a share in the Indian market. To sum it up, "Opportunities are abounding, but so are the challenges".

1.5 World over, the Aircraft Industry has the unique microeconomic characteristic of being oligopolistic in nature with high entry and exit barriers due to extremely high capitalisation and large cash flows. The industry, which has high technology content, not only to the products themselves but to production processes as well, is global in nature. The industry being sensitive in nature in terms of high technology is subjected to close Government regulations.

1.6 In India, the aerospace sector has been spearheaded by Hindustan Aeronautics Limited (HAL) and is reckoned to be the flag bearer of Indian Aviation.

1.7 HAL, a premier aerospace Company and a Navratna PSU, is involved in design & development, manufacture, upgrade and repair / overhaul of aircraft (fighters, trainers & transport), helicopters and associated Aero-engines, Accessories & Avionics for both military and civil applications. HAL has diversified into allied areas like manufacture of Structures for Aerospace Launch Vehicles/Satellites and Cryogenic Engines, production and overhaul of Marine & Industrial Gas Turbine Engines.

## 1. Organisation Structure

2.1 The Company's business is presently organised into five Complexes, each headed by a Managing Director / Director as given below:

- Design Complex - Design & Development of Fixed Wing Aircraft
- Bangalore Complex - Production, Repair and Overhaul of Fixed Wing Aircraft / Engine (Indian and Western origin)
- MiG Complex - Production, Repair and Overhaul of Fixed Wing Aircraft / Engine (Russian origin)
- Helicopter Complex (Created in 2008) - Helicopter Design and Production, repair and Overhaul of Helicopters
- Accessories Complex - Production and Repair of Accessories and Avionics

2.2 Dedicated Design Houses and Production Units for each program are assigned based on the technology/facilities available. Separate Divisions for Aircraft and Helicopter Overhaul have also been formed. Production/development of different types of aircraft in each of the Divisions is phased in such a manner that as one program tapers, the subsequent program gets inducted to ensure continuous optimal utilisation of the resources.

2.3 At present, HAL has 19 Production / Overhaul Divisions and 10 Research & Development (R&D) Centres located across India. Four new Divisions / R&D Centres have been created during the last four years:

- Composite Manufacturing Division
- Helicopter MRO Division
- Barrackpore Helicopter Division
- Mission & Combat Systems R&D Centre

## 2. Products & Services

3.1 The major products presently being manufactured include the Su-30 MKI aircraft, Advanced Jet Trainer (HAWK), Dornier–228 transport aircraft, Advanced Light Helicopter (ALH), Cheetal helicopter, Light Combat Aircraft (LCA), Intermediate Jet Trainer (IJT), besides up gradation of Jaguar aircraft, Sea Harrier aircraft, DO-228 aircraft, Cheetah and Chetak helicopters. In addition, HAL has been producing aerospace structures for the Indian Space Research Organisation for their GSLV, PSLV, INSAT and IRS programs.

3.2 The Company has a comprehensive design and development set up co-located with its Divisions. The Company has vast experience in the design and manufacture of a diversified range of aircraft and its systems. Out of 29 types of aircraft produced by the Company so far, 15 have been of indigenous design.

## 3. SWOT Analysis

**4.1 Strengths:**

- Design capability
- Modern manufacturing and technology infrastructure
- Strategic alliances with R&D and academic institutions
- Skilled & committed manpower
- Strong financial and order book position
- Good customer relations
- Good understanding of the Indian Defence market

**4.2 Weakness:**

- Dependence on foreign sources for raw materials and critical technologies
- Limited customer base
- Lack of flexibility in fixing compensation package to attract and retain talent

**4.3 Opportunities:**

- Increased requirement from Indian Armed Forces
- Offset arrangements
- Expanding MRO requirements from civil operators
- Growing civil aviation market in India

**4.4 Threats:**

- Obsolescence of Technology / Products
- High attrition of manpower
- Competition from private sector and foreign OEMs

**5. Product-wise performance**

Keeping in view the business and the sensitive nature of disclosure, it is considered prudent not to disclose segment-wise information, required as per Accounting Standard-17. Such non-disclosure does not have any financial effect on the Accounts of the Company.

**6. Outlook**

6.1 The Company with a vision “To become a significant global player in the aerospace industry” has chalked out plans and strategies to put itself into the big league of global companies in the aerospace vertical, while achieving the mission of becoming self-reliant in supporting the Indian Defence Services.

6.2 HAL, with a turnover of Rs. 13,115.50 crore (US$ 2.90 billion) in the year 2010-11, has a healthy Order Book of Rs. 68,265 crore (a little over US$ 15.10 billion) as on 1st April 2011.

6.3 In addition, the new programmes in the pipeline such as the MMRCA project, co-development of FGFA & MTA with the Russians, indigenous development of new basic trainer HTT-40, on-going development projects like the IJT, LCH, LUH etc. will not only ensure that the in-house capacity is fully loaded, but will also provide the required impetus for the growth of the Company.

6.4 As per the Perspective Plan, the Company would achieve sales of Rs. 23,930 crore (US$ 5.30 billion) by 2016. HAL is presently ranked 38th in the world in the Defence Aerospace sector as per the ‘Top 100’ survey of the Defence aerospace manufacturing market for the year 2009, published in ‘Flight International’. HAL aims to improve the ranking and break into the top 25 as a first step.

7. **Measures to tackle challenges**

The risks, challenges and concerns that the aircraft industry in the Country, and HAL in particular are facing and the measures that have been taken by HAL are enunciated below:

- **7.1 Customer Orientation** :

  7.1.1 As the Indian Defence Services are the principal customers of HAL, it is essential to ensure high level of customer satisfaction and this is one of the key drivers for the growth of the Company.

  7.1.2. The Company organises regular structured meetings with the principal customers, wherein information on the issues and concerns of the customers are obtained. The feedback is thoroughly analysed and remedial action is put in place to address these issues while keeping the customer informed.

  7.1.3 These meetings are also used to gain insight into the operational and future requirements of the customers, which is used to evolve plans to develop / provide new products/services.

  7.1.4 With a view to provide better service to the customers, as a new initiative, the Company will be offering Performance Based Logistics (PBL) Solutions to the Indian Defence Services in maintaining HAL-produced aircraft. Initially PBL will be offered for the Hawk aircraft and thereafter, extended to ALH and IJT fleets.

- **7.2 Business Processes**

7.2.1 The Company has over the years developed various systems and processes for managing personnel, products and technology. A Functional organisational structure or project-oriented organisation structure is used for personnel. The processes need to be revamped to evolve lean, flexible business processes to adapt to the ever changing business environment.

7.2.2 The Company initiated implementation of the Enterprises Resource Planning (ERP) in the year 2005-06, to instill a knowledge regime for operational excellence across the Company. During the implementation, all the business processes in the organisation were reviewed by a core group of functional experts before mapping the same to the ERP system i.e. Business Process Review (BPR) was done concurrently with ERP. Presently, the Company has implemented ERP across all the manufacturing divisions of the organisation with the exception of Barrackpore Division.

7.2.3 To further improve the business processes in procurement in order to reduce cycle time, achieve transparency and improve effectiveness and efficiency, initiatives have been taken to implement e-procurement in the Company. The e-procurement system will be put in place very soon.

- **7.3 Competitive Business Environment**

7.3.1 Opening up of the Defence sector to private sector participation is a challenge for the Company to sustain the growth in the competitive environment.

7.3.2 The Company's focus will continue to be on the upgradation of its facilities, modernisation, talent retention, optimisation of Supply Chain, Research & Development, Lean Engineering and Cost Reduction in order to be competitive.

- **7.4 Full Order Book & Major Programs**

7.4.1 With a fully loaded Order Book covering diverse products, execution of the orders, i.e. delivering the products in time and providing product support for a diverse range of products, equipments and systems, is a major task. Furthermore, handling major projects of the size of Medium Multi Role Combat Aircraft (MMRCA), Fifth Generation Fighter Aircraft (FGFA), Multi-role Transport Aircraft (MTA) concurrently along with other new development projects like the LCH, LUH, HTT-40 is a challenge.

7.4.2 The Company has drawn a long term Perspective Plan to meet the requirements of its main customers namely Indian Defence Services and to realise its Vision. The Current Perspective Plan of the Company covers the period from 2010-2022 (i.e. up to the end of the 13th Plan). This document outlines the roadmap for HAL's march towards the vision through analysis of current position, defining strategies to be adopted to overcome challenges and to sustain growth.

7.4.3 There has been a paradigm shift in the business perspective of HAL, wherein HAL is shifting from a vertically integrated organization to an aircraft integrator in the indigenous design & development programs. In the licensed production programs, HAL is driving to enhance the outsourcing level to the maximum extent possible especially in the manufacturing areas, so that HAL can focus more on its core competencies. The requirement of the capacity and infrastructure has been planned in line with the above philosophy.

7.4.4 As a follow up, a Modernisation Plan has been evolved, which outlines the equipment/machines, infrastructure that needs to be upgraded, added to cater to all the current and the new projects that have been considered in the Perspective Plan.

7.4.5 The Company plans to create new Divisions / facilities as Strategic Business Units (SBUs) for implementation of new programs such as MMRCA, FGFA and Light Utility Helicopter / Medium Lift Helicopters at appropriate time. Core teams have been formed to plan these activities for each project to ensure that the required infrastructure along with manpower with the right skill set will be in place to complete the project as planned.

7.4.6. Organisational re-structuring is being planned as part of the endeavour to create a lean, flexible and a flatter organisation structure in line with the current organisational trends and business environment.

- **7.5 Access to Technology**

7.5.1 Access to critical technologies in the aircraft industry is highly restrictive and in many cases subject to close Government regulations. In the prevailing scenario, acquisition of latest technologies is becoming increasingly difficult due to strategic denials or exorbitantly high cost.

7.5.2 Research & Development (R&D) is the key for the future growth of the Company. In this direction, the Company will strive to develop new products, systems and equipment through in-house as well as collaborative R&D. The Company is pursuing the strategy of collaborative R&D with Indian academic, scientific and research laboratories and institutions.

7.5.3 Every year considering the technological trends, future requirements and available capacity, the products, systems and technologies are identified and taken up for development. To sustain the development effort, the Company has re-structured and re-organised its R&D centres. They have also been strengthened with skilled manpower and research facilities.

7.5.4 In addition, the Company is pursuing business collaborations with foreign OEMs for

- Access to technology
- Access to the global market
- Secured supply of products at predictable cost and time lines

7.5.5 The Company has formed 11 Joint Venture Companies with leading international and domestic industrial houses in various allied areas, the details of which have been given elsewhere in the Report. Some collaborations for niche technologies, include Joint Venture Companies with

- M/s Elbit Systems Ltd, Israel for Simulators and Avionics products,
- CAE Canada to provide pilot training services through flight training devices and simulators,
- UAC-TA & Rosoboronexport of Russia for co-design and co-development of the MTA Project.
- HAL is planning to enter into strategic alliances in niche/critical technology areas like the AESA Radar, Software Defined Radios, Avionics, Ultra Light/Heavy Helicopters, small Gas Turbine Engines etc. HAL is also triggering formation of internal partnerships with Indian private industries to widen the aerospace infrastructure within India.

## 8. Internal control systems and their adequacy

8.1 The Company has a well developed Internal Control System in place with checks and balance. In addition, the System is monitored by an in-house Systems Audit Department and through Internal Audits done by firms of Chartered Accountants, on a quarterly basis.

8.2 The Audit Committee is also kept appraised of the reports of the in-house and Internal Audit. The head of in-house Audit attends all meetings of the Audit Committee.

## 9. Discussion on financial performance with respect to operational performance

### 9.1 Financial / Operational Performance:

9.1.1 Strategy and Objectives:

The main objectives of Financial strategies of the Company are enumerated below:-

(i) To meet expectations of various stake holders

(ii) Highest Standards of reporting by adherence to Accounting Standards and Transparent Disclosures

(iii) Effective Tax Planning to improve post tax yield to share holders

(iv) Maintain highest credit rating to enable raising of funds at economical rate

(v) To make available required funds through internal accruals and by effective Fund Management so as to have minimum Financing cost

9.1.2 The above objectives have been accorded highest priority by the Company. The Working Capital and Capital expenditure requirement of the Company were made through Internal Resources without resulting in borrowings.

9.2 Performance Highlights:

| Particulars | Unit | 31.3.2011 | 31.3.2010 |
|---|---|---|---|
| Total Sales | Rs. Cr. | 13,115.50 | 11,456.70 |
| Export Sales | Rs. Cr. | 237.39 | 204.67 |
| Operating Profit | Rs. Cr. | 1498.96 | 1,170.32 |
| Non-operating Profit | Rs. Cr. | 1,340.57 | 1,518.11 |
| Total Profit | Rs. Cr. | 2,839.52 | 2,688.43 |
| Gross Margin | Rs. Cr. | 3,654.32 | 3,382.75 |
| Share holders Funds | Rs. Cr. | 9,745.22 | 8,123.52 |
| Net worth | Rs. Cr. | 7,851.79 | 6,157.30 |
| R&D Expenditure | Rs. Cr. | 986.96 | 832.12 |
| Dividend Pay-out | Rs. Cr. | 423.12 | 393.48 |
| Dividend as a percentage to Paid-up Capital | % | 351.14 | 326.54 |
| Sales Per Employee | Rs. Lakh | 38.94 | 33.71 |
| Value Added Per Employee | Rs. Lakh | 13.89 | 12.56 |
| Debt-Equity Ratio | Times | 0.00002 | 0.00002 |
| Earnings Per Share | Times | 175.46 | 163.27 |

9.3 Analysis of Financial Performance 2010-11:

9.3.1 The Sales registered a growth of 14.48% from Rs.11,456.70 crore to Rs. 13,115.50 crore.

9.3.2 Value of Production has registered an increase from Rs.13,489.59 crore in the previous year to Rs.16,450.84 crore.

9.3.3 The Company has recorded highest profit of Rs.2,839.52 crore during the year as compared to Rs.2,688.43 crore in the previous year.

9.3.4 Gross Margin has increased from Rs.3,382.75 crore to Rs.3,654.32 crore.

9.3.5 Earnings Per Share is Rs.175.46 as against Rs.163.27 in the previous year.

9.3.6 Increase in net worth from Rs.6,157.30 crore to Rs.7,851.79 crore.

**10. HUMAN RESOURCE DEVELOPMENT**

People being the key resource in the Organization, the objective of the Human Resource Development function is to build a vibrant learning Organisation that meets the challenges for its growth. A series of initiatives were taken in this direction during the year.

- 10.1 To enhance the effectiveness of the learning & development process, the Company has identified Champions of Learning in each Division, who will act as Mentor, Initiator, Communicator and as an Advocate of learning & development. He will be the bridge between Line Managers and HR in furthering learning & development. A workshop for the Champions of Learning was conducted during the year.

- 10.2 To connect the Shop Floor with Class Room and to share the tacit knowledge, General Managers/ Executive Directors are handling training sessions at the HAL Management Academy, Bangalore. One hundred and fifty five such sessions were held during the year.

- 10.3 To internalise the learning process, the Company has developed Two Case Studies with the help of IIM, Ahmedabad and IIM, Bangalore.

- 10.4 To prepare the Senior Officers in effectively dealing with Contracts, Negotiations & Intellectual Property Rights, a 5-day Programme was conducted by the National Law School of India University, Bangalore. The faculty included experts in the field both at the national and international levels. Two programmes were held during the year, covering 45 Senior Officers at the Additional General Manager/ General Manager/ Executive Director/ Director levels.

    - 10.5 Opportunities were provided to Officers to enhance their knowledge and competencies by way of sponsorship for Post Graduate Programmes at Cranfield University, UK; Management Development Institute, Gurgaon; International Management Institute, Delhi; and the IITs at Kanpur, Kharagpur, Madras and Roorkee. Fifty one Officers were sponsored during the year.2010-11

## 11. Environment Protection and Conservation :

11.1 The Company is maintaining a healthy environment in the changing scenario, wherein Pollution Control norms have to be scrupulously followed with respect to environment management.

11.2 Different types of scrap and waste material including hazardous ones are being collected at Central Salvage Yards and segregated into different categories. The Hazardous Wastes are auctioned through authorised Agencies, among Tenderers approved either by Central Pollution Control Board or State Pollution Control Board.

a) Such Agencies have the registration with Ministry of Environment and Forests as Recycler / Re-processor with environmentally sound management facilities.

b) Such Agencies have the authorisation to operate from respective State Pollution Control Boards.

11.3 The Company has been planting saplings every year. The Division–wise details of saplings planted during the years 2009-10 and 2010 –11 are as indicated below.

| Sl. No. | Name of the Division / Complex | Total number of saplings planted during | |
|---|---|---|---|
| | | 2009 - 10 | 2010 - 11 |
| 1 | Bangalore Complex | 20,000 | 12,800 |
| 2 | Koraput Division | 32,100 | 78,700 |
| 3 | Nasik Division | 7,800 | 14,755 |
| 4 | Korwa Division | 7,600 | 9,500 |
| 5 | Lucknow Division | 7,500 | 8,500 |
| 6 | Barrackpore Division | 19,215 | 3,670 |
| 7 | TAD Kanpur | 3,013 | 8,500 |
| 8 | Hyderabad Division | 150 | 700 |
| | TOTAL | 97,378 | 1,37,125 |

11.4 In order to conserve energy, the Company has taken several measures such as use of natural light, LED lamps, timer switches, CFL bulbs in the offices, solar lights, timer / photo electric timers and thermostat in furnaces to maintain temperature.

## CORPORATE GOVERNANCE REPORT

### Philosophy and Code of Governance

The Company's philosophy on Corporate Governance is guided by the principles of transparency, compliance of laws, procedures and meeting ethical standards to take care of the interest of all the stakeholders. It believes that all operations must be spearheaded towards attaining the final objective of enhancing shareholder value continuously.

The Company has a strong and well laid down administrative set up to facilitate decentralised and transparent decision making at various levels with responsibility and accountability attached to the delegates.

In addition, the Company has adopted a Code of Conduct for its Senior Management including the Directors. A Whistle Blower Policy has been introduced.

HAL believes in customer satisfaction, financial prudence and commitment to values. Our Corporate structure, business and disclosure practices have been aligned to our Corporate Governance philosophy.

The Company is in compliance with the requirement of the Guidelines on Corporate Governance and Policy adopted by the Board of Directors as per the Guidelines issued by the Department of Public Enterprises (DPE).

### BOARD OF DIRECTORS

#### Composition

The composition of HAL Board of Directors is in line with the Guidelines on Corporate Governance issued by the Department of Public Enterprises, Government of India. The Board of Directors consists of 9 Whole time Directors including the Chairman, 2 Government Directors and 6 Independent Directors.

The Deputy Chief of Air Staff (Air HQ), Master General Ordnance (Army HQ) and Deputy Chief of Naval Staff (Naval HQ) are Permanent Special Invitees to all the Board Meetings of the Company.

#### Meetings and Attendance

During the financial year ended on 31$^{st}$ March 2011, nine Board Meetings were held i.e. on 23$^{rd}$ April 2010, 28$^{th}$ May 2010, 14$^{th}$ July 2010, 20$^{th}$ August 2010, 29$^{th}$ September 2010, 28$^{th}$ October 2010, 30$^{th}$ November 2010, 11$^{th}$ January 2011 and 10$^{th}$ February

2011. Details of attendance of the Directors at the Board Meetings during 2010-11 are given below:-

| Sl. No. | Directors | Board Meetings held during respective tenure of Director | No. of Board Meetings attended |
|---|---|---|---|
| 1 | Shri Ashok Nayak, Chairman | 9 | 8 |
| 2 | Shri Manoj Saunik | 9 | 9 |
| 3 | Shri P. K. Kataria * | 7 | 4 |
| 4 | Smt. Anuradha Mitra * | 2 | 1 |
| 5 | Shri Sanjeev Sahi * | 0 | 0 |
| 6 | Shri D. Shivamurti * | 9 | 9 |
| 7 | Shri N. C. Agarwal | 9 | 9 |
| 8 | Shri P. V. Deshmukh | 9 | 9 |
| 9 | Shri S. K. Jha | 9 | 9 |
| 10 | Shri R. Srinivasan | 9 | 6 |
| 11 | Shri P. Soundara Rajan | 9 | 9 |
| 12 | Shri D. Balasunder | 9 | 3 |
| 13 | Shri V. K. Misra | 9 | 8 |
| 14 | Prof N. K. Naik | 9 | 9 |
| 15 | Shri Ajay Shankar * | 0 | 0 |
| 16 | Shri V. V. R. Sastry * | 0 | 0 |
| 17 | Shri Surendra Kumar * | 0 | 0 |
| 18 | Prof.(Dr.) R. Venkata Rao * | 0 | 0 |

* Change in Board of Directors

- Smt. Anuradha Mitra ceased to be Director w.e.f. 11th June 2010
- Shri P. K. Kataria appointed as Director w.e.f. 12th July2010
- Shri D. Shivamurti ceased to be Director(Finance) w.e.f. 3rd March 2011
- Shri Sanjeev Sahi ceased to be Director(HR) w.e.f. 9th April 2010
- Shri Ajay Shankar appointed as Director w.e.f. 9th March 2011
- Shri Surendra Kumar appointed as Director w.e.f. 9th March 2011
- Prof.(Dr.) R. Venkata Rao appointed as Director w.e.f. 9th March 2011
- Shri V.V.R. Sastry appointed as Director w.e.f. 9th March 2011
- Shri N. C. Agarwal, Director(D&D) ceased to be Director(D&D) w.e.f. 1st July, 2011.

**Audit Committee**

The composition of the Audit Committee is in line with Section 292A of the Companies Act, 1956 and the Guidelines on Corporate Governance for Central Public Sector Enterprises issued by the Department of Public Enterprises (DPE Guidelines). The Audit Committee consists of four Independent Directors and two Government Directors. Shri. V.K. Misra, Independent Director is the Chairman of the Audit Committee. The Company Secretary is the secretary of the Audit Committee.

The present Composition of the Audit Committee is as under:-

- Shri V. K. Misra, Chairman
- Dr. N. K. Naik
- Shri V.V.R. Sastry
- Shri Surendra Kumar
- Shri Manoj Saunik
- Shri P. K. Kataria

During the year 2010-11, the Audit Committee consisted of 2 Independent Directors and 2 Government Directors, which was reconstituted on appointment of 4 Independent Directors in March 2011.

The Statutory Auditors of the Company, Director (Finance), Director (CP&M) are permanent invitees. Executive Director (Finance) & General Manager (System Audit) also attend the meetings of the Audit Committee regularly. The terms of reference of the Audit Committee are in line with Section 292A of the Act and the DPE Guidelines.

During the year ended on 31$^{st}$ March 2011, the Audit Committee met five times on 22$^{nd}$ April 2010, 28$^{th}$ May 2010, 13$^{th}$ July 2010, 29$^{th}$ November 2010 and 10$^{th}$ February 2011. The attendance of the Chairman and members of the Audit Committee in these meetings were as follows :-

| Sl. No. | Name of Attendees | Meetings held during respective tenure of Director | No. of Audit Comm. Meetings attended |
|---|---|---|---|
| 1 | Shri V. K. Misra, Chairman | 5 | 5 |
| 2 | Dr. N. K. Naik | 5 | 5 |
| 3 | Shri Manoj Saunik | 5 | 3 |
| 4 | Shri P. K. Kataria | 3 | 2 |

**Remuneration Committee**

HAL had constituted a Remuneration Committee headed by an Independent Director to decide on the Annual Bonus / Variable Pay (Performance Related Pay) pool and policy for its distribution across the Executives within the prescribed limits in line with the Government directives for revision of pay scales for the executives w.e.f January 2007.

The Board had constituted the HR Committee and authorised the HR Committee to function as the Remuneration Committee initially. The Board at its 332nd Meeting held on 29$^{th}$ September 2010 had reconstituted the Remuneration Committee with the following members taking into consideration the revised guidelines on constitution of the Remuneration Committee:

| Sl.No | Name | Position |
|---|---|---|
| 1 | Shri V.K.Misra | Chairman |
| 2 | Shri Manoj Saunik | Member |
| 3 | Dr. N.K.Naik | Member |
| 4 | Shri P.K.Kataria | Member |

Consequent to appointment of the new Independent Directors, the Board at its 337th Meeting held on 8th April 2011 had re-constituted the Remuneration Committee with the following members:

| Sl.No | Name | Position |
|---|---|---|
| 1 | Shri Ajay Shankar | Chairman |
| 2 | Shri Manoj Saunik | Member |
| 3 | Shri P.K.Kataria | Member |
| 4 | Dr. N.K.Naik | Member |
| 5 | Director (Fin) | Permanent Invitee |

The HR Committee had met on 19th August 2010 and 29th September 2010 to function as the Remuneration Committee. The attendance of Chairman and Members in these meetings was as follows:

| Sl. No. | Name | Position | Meeting held during respective tenure of Director | No. of Remuneration Committee Meeting attended |
|---|---|---|---|---|
| 1 | Shri V.K.Misra | Chairman | 2 | 2 |
| 2 | Shri Manoj Saunik | Member | 2 | 2 |
| 3 | Dr. N.K.Naik | Member | 2 | 2 |

Being a Central Public Sector Enterprise, the appointment of the Chairman and Whole time Directors is made by the Government of India indicating the tenure, remuneration package and other terms and conditions of appointment.

The Independent Directors are not paid any remuneration except the sitting fee of Rs. 20,000 per sitting of the Board and its Committees. The Government Directors are neither paid any remuneration nor any sitting fee.

Sitting fee paid to the Independent Directors during the year 2010-11 is as follows:

| Sl.No | Name of Independent Director | Board Meetings | Committee Meetings | Total Remuneration (Amt. in Rs) |
|---|---|---|---|---|
| 1 | Shri. V.K.Misra | 8 | 8 | 3,20,000 |
| 2 | Dr. N.K.Naik | 9 | 8 | 3,40,000 |

Details of remuneration of Whole time Directors during the year 2010-11 are given below:

| Name of Director | Salary * | Company Contribution to PF & Gratuity | Commission | Total |
|---|---|---|---|---|
| Mr. Ashok Nayak, Chairman | 25,79,863.00 | 1,62,379.00 | 0.00 | 27,42,242.00 |
| Mr. N. C. Agarwal, D(D&D) & DF | 22,34,498.00 | 1,58,581.00 | 0.00 | 23,93,079.00 |
| Mr. P. V. Deshmukh, MD(M) | 21,00,835.00 | 1,55,974.00 | 0.00 | 22,56,809.00 |
| Mr. S. K. Jha, MD(A) | 20,21,051.00 | 1,49,229.00 | 0.00 | 21,70,280.00 |
| Mr. P. Soundara Rajan MD(HC) & D(CP&M) | 24,17,521.00 | 1,51,856.00 | 0.00 | 25,69,377.00 |
| Mr. D. Balasunder, MD(BC) | 18,65,206.00 | 1,52,695.00 | 0.00 | 20,17,901.00 |
| Mr. D Shivamurti, Ex-Director (Finance) | 26,58,111.00 | 1,66,639.00 | 0.00 | 28,24,750.00 |
| Mr. R. Srinivasan, D(HR) | 22,56,948.00 | 1,52,223.00 | 0.00 | 24,09,171.00 |

* Salary includes Perk arrears

**Other Committees of Board and membership**

The Board has constituted the following sub-committees to assist and advise in their respective areas.

(a) The Technology Development Committee (TDC) with the following members to guide the Company in developing the strategy for Technology Development Projects and suggest the areas for development of critical technologies through collaborative R&D :

- Dr. N. K. Naik, Chairman
- Shri Surendra Kumar,
- Shri P. Soundara Rajan, Director(CP&M)
- Shri V.V. R. Sastry
- Director (D&D)

(b) The HR Committee with the following members to provide broad directions, guidance and advice to the Company in laying down Policy Guidelines and evolving HR Strategies:

- Shri V. K. Misra, Chairman
- Prof.(Dr.) R. Venkata Rao
- Shri Manoj Saunik
- Shri N.C. Agarwal
- Director (HR)

(c) The Management Committee consisting of all Whole time Directors chaired by the Chairman of the Company has been empowered to approve the proposals under the powers delegated by the Board.

(d) The Design Policy Committee consisting of all Whole time Directors chaired by the Chairman of the Company has been delegated powers by the Board to approve certain research and development and indigenisation proposals.

(e) The Procurement Sub-Committee consisting the following members has been delegated powers to approve procurements / orders costing beyond Rs. 30 crore and upto Rs. 100 crore:

- Shri Ashok Nayak, Chairman
- Shri Manoj Saunik, Joint Secretary (Aerospace), MoD
- Shri P. K. Kataria, Addl FA & JS, MoD
- Director (Finance)
- Director (CP&M)
- Concerned Managing Director

**Code of Conduct**

The Board of Directors of your Company has laid down a Code of Conduct for all Board Members and Senior Management of the Company. The Code of Conduct has been posted on the Company's website, www.hal-india.com. All Board Members and Senior Management personnel have affirmed compliance with the Code of Conduct during the year 2010-11. A declaration to this effect signed by the Chairman is attached to this report.

**Shareholding Pattern**

HAL is not listed at any Stock Exchange in India or abroad. The entire equity share capital of the Company is held by the President of India and her nominees.

## General Body Meetings

Details of last three Annual General Meetings are as follows:-

| Year | Location | Date & Time |
|---|---|---|
| 2007-08 | Hindustan Aeronautics Limited<br>15/1, Cubbon Road,<br>Bangalore – 560001. Karnataka | 28th August 2008<br>at 4.00 pm |
| 2008-09 | Hindustan Aeronautics Limited<br>15/1, Cubbon Road,<br>Bangalore – 560001. Karnataka | 31st July 2009<br>at 10.00 am |
| 2009-10 | Hindustan Aeronautics Limited<br>15/1, Cubbon Road,<br>Bangalore – 560001. Karnataka | 20th August 2010<br>at 12.30 pm |

No Special Resolutions were put up at any of above three Annual General Meetings.

The Annual General Meeting for the current year 2010-11 will be held on:-

**Date** **:** 13 September 2011
**Time** **:** 14:30 hours
**Venue** **:** Hindustan Aeronautics Limited
15/1, Cubbon Road,
Bangalore – 560001. Karnataka

**Registered / Corporate Office address for correspondence**

Hindustan Aeronautics Limited
15/1, Cubbon Road, Bangalore – 560001. Karnataka
Phone (080) 2232 0001, Fax (080) 2232 0758
Email: cosec@hal-india.com
Website: www.hal-india.com

## Disclosures

**(a)** **Related Party Transactions** are disclosed in Note No. 21A & 21B of Notes to Accounts (Schedule 24 to the Profit & Loss Account of the Company for the year ended 31st March 2011). The Company does not have any materially significant related party transactions, which may have potential conflict with its interest at large.

**(b) Accounting Standards**

The Company is complying with all mandatory Accounting Standards excepting for Accounting Standard 17 dealing with “Segment Reporting” due to the following reasons:-

“Keeping in view the nature of business and the sensitive nature of disclosure, it is considered prudent not to disclose information required as per Accounting Standard-17 regarding Segment reporting. Such non-disclosure does not have any financial effect on the Accounts of the Company.

Further, the Company has been granted exemption vide order No.3/33/71-CL-VI dated 6th June 1974 from adherence to the provisions contained in Part-II of Sch.VI to the Companies Act, 1956 in respect of para 3(1)(a), 3(ii)(a)(1), 3(ii)(a)(2), 3(ii)(d) & 4C.

Disclosure in this regard has been made at Note-20 of Sch.24 – Notes on Accounts.”

**(c) Training of Directors**

The Directors were sponsored for training programmes on Corporate Governance conducted by SCOPE and on “Contracts, IPR & Negotiations” organised by the National Law School of India University, Bangalore.

**(d) Whistle Blower Policy**

With a view to establish a mechanism for the employees to report to the Management about their concerns on unethical behaviour or the cases of suspected fraud, violation of Company’s general guidelines on Conduct and Ethics, the Company has promulgated a Whistle Blower Policy during the year 2010. The Policy also ensures that adequate safeguards are provided to the genuine Whistle Blower against victimisation, who avail the mechanism.

**(e) Presidential Directives**

HAL has been following the Presidential Directives and Guidelines issued by the Government of India from time to time regarding reservations of SCs, STs and OBCs in letter and spirit. Liaison Officers are appointed at various Units / Offices all over the Country to ensure implementation of the Government Directives. Officials dealing with the subject were provided with necessary training to enable them to update their knowledge on the subject and perform their job effectively. HAL has been implementing the Government Directives on Reservation and the representation of SCs/STs/OBCs in HAL as on 31st December 2010 are as under:

| Category of Employees | Group 'A' | Group 'B' | Group 'C' | Group 'D' |
|---|---|---|---|---|
| Scheduled Caste | 1,454 | 265 | 4,166 | 16 |
| Scheduled Tribe | 450 | 95 | 1,582 | - |
| OBC | 1,627 | 276 | 5,371 | 07 |

HAL has been implementing the Government Directives on reservation for persons with Disabilities and Ex-servicemen. Their representation as on 31st December 2010 are as under:

| Category of Employees | Group 'A' | Group 'B' | Group 'C' | Group 'D' |
|---|---|---|---|---|
| Physically Handicapped | 114 | 42 | 499 | 4 |
| Ex-Servicemen | 123 | 15 | 1,791 | 1 |

The Company has implemented Presidential Directives on the Official Language Act.

**(f) Items of expenditure debited in Books of Accounts, which are not for the purpose of business**

No items of expenditure, other than those directly related to its business or incidental thereto, those spent towards the welfare of its employees/ex-employees, towards fulfilling its Corporate Social Responsibility, were debited in the Books of Accounts.

**(g) Expenses incurred, which are personal in nature and incurred for the Board of Directors and Top Management**

Expenses incurred for the Board of Directors and Top Management are in the nature of salaries, allowances, perquisites, benefits and sitting fees as permissible under the Rules of the Company. No other expenses, which are personal in nature, were incurred for the Board of Directors and Top Management during the year 2010-11.

**(h) Corporate Social Responsibility (CSR) Committee:**

The Board of Directors of the Company has approved the CSR Policy formulated as per the Guidelines of the Department of Public Enterprises (DPE). A CSR Committee under the chairmanship of an Independent Director has been constituted to oversee implementation of the Policy, as follows:

S/Shri

| | | |
|---|---|---|
| 1. | Prof. (Dr) R Venkata Rao | Chairman |
| 2. | Director (Finance) | Member |
| 3. | Managing Director (MiG Complex) | Member |
| 4. | Managing Director (Accessories Complex) | Member |
| 5. | Managing Director (Bangalore Complex) | Member |
| 6. | Director (HR) | Member |
| 7. | Executive Director (Finance), CO | Member |
| 8. | Executive Director (HR), CO | Secretary |

**Scope of the Committee**:

(i) CSR Committee to apportion the Company-wide CSR activities to the Divisions taking into consideration the plan / targets as envisaged in the MoU;

(ii) CSR Committee would be responsible for implementation of CSR Policy;

(iii) The Nodal Officer at Corporate level is required to monitor the CSR activities of all the Divisions and apprise the progress to CSR Committee;

(iv) CSR Committee to analyse the progress made by the Divisions and place the matter before the Board for its appreciation and review on a bi-annual basis.

Activity-wise expenditure incurred during the year 2010-11 on CSR is as follows:

| Sl.No. | Activity | (Rs.in lakh) |
|---|---|---|
| 1 | Education | 14.39 |
| 2 | Health | 71.25 |
| 3 | Rural Sports | 4.22 |
| 4 | Infrastructure | 59.35 |
| 5 | Drinking Water | 1.52 |
| 6 | Women & Child Welfare | 0.19 |
| 7 | Community Development | 1.10 |
| 8 | Environment | 12.93 |
| 9 | Rehabilitation & others | 14.38 |
| | Total | **179.33** |

**(i) Means of Communications**

The Company displays the Accounts and other relevant information including those required under the Right to Information Act on its website www.hal-india.com.

### (j) Compliance

The Company has complied with the Guidelines on Corporate Governance for CPSEs issued by the Department of Public Enterprises, Government of India. The Company is also submitting Quarterly compliance report regularly to the Ministry of Defence, Government of India. Certificate from the Statutory Auditors of the Company on compliance with the DPE Guidelines is enclosed to this Report.

**-----**

# DECLARATION

Pursuant to the Department of Public Enterprises (DPE) Guidelines on Corporate Governance for Central Public Sector Enterprises as contained in the DPE Office Memorandum No. 18(8)/2005-GM dated 14th May, 2010, all Board Members and Senior Management Personnel of the Company have affirmed compliance with the Code of Business Conduct & Ethics for Board Members & Senior Management of Hindustan Aeronautics Limited, for the year ended 31st March 2011.

**For Hindustan Aeronautics Limited**

Place : Bangalore
Date : 12th September, 2011

**ASHOK NAYAK**
**CHAIRMAN**

# ACCOUNTING POLICIES

## 1. ACCOUNTING METHOD

The financial accounts are prepared under the accrual basis and at historical cost unless otherwise stated.

## 2. FIXED ASSETS

2.1 Land received free from the State Government till 31st March 1969 has not been valued. Such land, which have been taken over by the Company after 1st April 1969, have been valued at estimated fair price ruling on the date of taking possession.

Land, other than the above, has been capitalised at cost to the Company. Expenditure on development is shown under land.

The gross block of Fixed Assets (other than land acquired free from the State Government) is stated at cost of acquisition or construction including any cost attributable to bringing the assets to their working conditions for their intended use.

With effect from 01.04.2000, Borrowing Costs whether specific or general, utilized for acquisition, construction or production of qualifying assets, are capitalised as part of the cost of such assets, till the activities necessary for its intended use or sale are complete.

2.2 Fixed Assets acquired with financial assistance / subsidy from outside agencies either wholly or partly are capitalised at net cost to the Company.

2.3 Where the actual cost of Fixed / Current Assets are not readily ascertainable, they are accounted initially on provisional basis but adjusted subsequently to cost when ascertained.

2.4 Fixed Assets declared surplus / discarded are valued at lower of net book value and net realisable value, where the amounts involved are material and depreciation provided till the end of the month preceding the month in which they are disposed off. The entire excess of sale proceeds over the net book value of Fixed Assets is credited to the Profit and Loss Account with effect from 1 st April 1998.

2.5 Expenditure on re-conditioning, re-siting and re-layout of machinery and equipment which do not increase the future benefits from the existing assets beyond the previously assessed standard of performance based on the technical assessment, is not capitalised.

2.6 Cost of the initial pack of Spares procured with Plant, Machinery and Equipment is capitalised and depreciated in the same manner as Plant, Machinery and Equipment.

2.7 Indirect expenses on Administration and Supervision in respect of expansion facilities / new projects at the existing operating Divisions are charged to Revenue.

## 3. IMPAIRMENT OF ASSETS

As at the end of each Balance Sheet date, the carrying amount of assets is assessed as to whether there is any indication of impairment. If the estimated recoverable amount is found less than its carrying amount, the impairment loss is recognized and assets are written down to their recoverable amount.

## 4. TOOLS AND EQUIPMENT

Expenditure on special purpose tools, jigs and fixtures including those specific to projects / products is initially capitalised for amortisation over production on technical assessment and to the extent not amortised is carried forward as an asset. Expenditure on maintenance, re-work, re-conditioning, periodical inspection, referencing of tooling, replenishing of cutting tools and work of similar nature is charged to revenue at the time of issue.

## 5. INTANGIBLE ASSETS

5.1 Research and Development Expenditure

Expenditure on Research and Development as and when incurred is debited to the Profit and Loss Account.

To the extent of Development Costs, which relate to Design, Construction and Testing of a chosen alternative for new or improved material, devices, products, processes, systems or services are recognized as an intangible asset, if it is probable that expenditure will enable the asset to generate future economic benefit. Such intangible assets are amortized over a period not exceeding ten years using straight line method.

5.2 Expenditure on licence fees, documentation charges etc. based on the definition criteria of intangible assets in terms of identifiability, control and future economic benefits from the assets, are amortized over production on technical estimates, and to the extent not amortized, are carried forward.

5.3 The cost of software internally generated / acquired for internal use which is not an integral part of the related hardware, is recognized as an intangible asset in the Books of Accounts and is amortised over a period not exceeding three years, on straight line method. Amortisation commences when the asset is available for use.

## 6. DEFERRED DEBTS

Unpaid instalment payments under deferred payment terms for the cost of imported material and tooling content of the equipment / products sold are accounted as deferred debts from the customer and are recovered as and when the instalments are paid.

## 7. SUNDRY DEBTORS

Disputed / Time-barred debts from the Government departments are generally not treated as doubtful debts.

## 8. INVENTORY

8.1 Inventories are valued at lower of cost and net realisable value. The cost of raw material, components and stores are assigned by using the actual weighted average cost formula and those in transit at cost to date. In the case of stock-in-trade and work-in-progress, cost includes material, labour and related production overheads.

8.2 Provision for redundancy is maintained at a suitable percentage / level of the value of closing inventory of raw material and components, stores and spare parts and construction material, less the value of inventory to be borne by the customer and the value of the inventory for the initial phases of the new projects. Besides, where necessary, adequate provision is made for the redundancy of such material in respect of completed / specific projects and other surplus / redundant material pending transfer to salvage stores.

8.3 Stores declared surplus / unserviceable / redundant are charged to revenue.

8.4 Consumables issued from main stores and lying unused at the end of the year are not reckoned as inventory.

## 9. DISPOSAL OF SCRAP

Saleable / Disposable scrap is valued at estimated realisable value.

## 10. SALES

### 10.1 Manufacturing, Repair and Overhaul / Spares Sale

Sales are set up on completion of contracted work on the basis of signalling out / acceptance by the customer's inspection of the product. Where the sale prices are not established, sales are set up on provisional basis at prices likely to be realised. The differential sales arising on finalisation of prices are accounted as sales in the year when the sale prices are finalised / firmed up.

**10.2 Development Sales**

Development sales are set up on incurrence of expenditure identifiable to work orders and milestones achieved as per contract. Where milestones have not been defined sales will be as per actual incurrence of expenditure.

**11. EMPLOYEE BENEFIT**

11.1 Liability towards gratuity provided on yearly actuarial valuation in respect of all employees is remitted to a trust progressively.

11.2 Provision for vacation leave is made on the basis of actuarial valuation.

**12. DEPRECIATION**

Depreciation on Fixed Assets is charged on straight line method. The rates of depreciation on assets acquired on or prior to 1.4.1989 are on the basis of estimated life. The rates of depreciation are as prescribed in Sch.XIV to the Companies Act, 1956 for assets capitalised after 1.4.1989 (except for assets separately listed in Notes to Balance Sheet). However, each of the Fixed Assets is fully depreciated to rupee one value. Pro-rata depreciation is charged to the assets from the first day of the month of addition.

Fixed Assets costing Rs.10,000/- and below are depreciated fully in the year of purchase.

**13. FOREIGN CURRENCY TRANSACTION**

Assets and Liabilities are re-instated at the year-end at the rate prevalent on 31st March of each year. The Income / Expenditure on account of this is charged to revenue.

**14. CLAIMS BY / AGAINST THE COMPANY**

Claims on suppliers / underwriters / carriers towards loss / damages, claims for export subsidy, duty drawbacks, and claims on Customs department for refunds are accounted when claims are preferred.

Claims for Liquidated damages by / against the Company are recognized in Accounts on acceptance.

No provision is made for liabilities which are contingent in nature, but if material are disclosed by way of Notes.

**( Dr. A.K. MISHRA )**
**Director Finance**

**( ASHOK NAYAK )**
**Chairman**

**( ASHOK TANDON )**
**Company Secretary**

Dated : 17th August, 2011

Place : BANGALORE

**HINDUSTAN AERONAUTICS LIMITED**

**BALANCE SHEET**

| **As at 31st March 2011** | | | | **(Rs. in Lakhs)** |
|---|---|---|---|---|
| **Particulars** | **Schedule** | **31st March 2011** | | **31st March 2010** |
| | | | | |
| **SOURCES OF FUNDS** | | | | |
| Shareholders' Funds | | | | |
| Capital | 1 | 12050.00 | | 12050.00 |
| Reserves and Surplus | 2 | 962472.24 | | 800302.26 |
| | | | 974522.24 | 812352.26 |
| | | | | |
| Loan funds | 3 | | | |
| | | | | |
| Deferred Liabilities (Net) | 4 | | 16.85 | 18.20 |
| | | | | |
| Deferred Tax Liabilities | 4A | | 148555.29 | 150528.68 |
| | | | | |
| | | | **1123094.38** | **962899.14** |
| **APPLICATION OF FUNDS** | | | | |
| Fixed Assets | | | | |
| Gross Block | 5 | 314272.60 | | 293352.99 |
| Less : Depreciation | 6 | 163354.66 | | 146802.75 |
| Net Block | | | 150917.94 | 146550.24 |
| **Intangible Assets** | | | | |
| Gross Carrying Amount | 5A | 286071.47 | | 267003.59 |
| Less :Cumulative Amortisation & Impairment Loss | 6B | 96728.51 | | 70380.91 |
| Net carrying amount | | | 189342.96 | 196622.68 |
| | | | | |
| Capital Work-in-progress | 7 | | 11841.98 | 21237.40 |
| Special Tools and Equipments | 8 | | 288826.48 | 297825.31 |
| Investments | 9 | | 39751.07 | 23065.60 |
| | | | | |
| Current Assets, Loans & Advances | | | | |
| Inventories | 10 | 1742718.09 | | 1366003.48 |
| Sundry Debtors | 11 | 231821.62 | | 185803.50 |
| Cash and Bank Balances | 12 | 2009931.74 | | 1865763.56 |
| Loans and Advances | 13 | 570139.88 | | 507338.40 |
| | | | 4554611.33 | 3924908.94 |
| Less: Current Liabilities and Provisions | | | | |
| Liabilities | 14 | 3954914.35 | | 3488732.30 |
| Provisions | 14 | 157283.03 | | 158578.73 |
| | | | 4112197.38 | 3647311.03 |
| | | | | |
| Net Current Assets | | | 442413.95 | 277597.91 |
| Miscellaneous Expenditure | 15 | | | |
| | | | | |
| Notes on Accounts | 24 | | | |
| | | | **1123094.38** | **962899.14** |

Schedule `1' to `24' and Accounting Policies attached form part of the Accounts.

Subject to our report of even date

**for K.P.RAO & CO**

Chartered Accountants
Firm Regn. No. 003135S

**(Dr. A.K. MISHRA)**
Director Finance

**(ASHOK NAYAK)**
Chairman

**K.VISWANATH**
**Partner**
Membership No. 022812
Place : Bangalore
Date : 17th August 2011

**(ASHOK TANDON)**
Company Secretary

**HINDUSTAN AERONAUTICS LIMITED**
**PROFIT AND LOSS ACCOUNT**
**For the year ended 31st March 2011**

| **Particulars** | **Schedule** | **31st March 2011** | | **31st March 2010** |
|---|---|---|---|---|
| | | | | **(Rs. in Lakhs)** |
| **INCOME** | | | | |
| Gross Sales | 16 | 1311550.43 | | 1145669.95 |
| Less Excise Duty | | 142.36 | | 87.83 |
| Net Sales | | 1311408.07 | | 1145582.12 |
| Changes in WIP/SIT/Scrap | 23A/B | 333390.08 | | 203378.86 |
| Other Income | 17 | 229696.39 | | 195369.61 |
| | | | **1874494.54** | **1544330.59** |
| **EXPENDITURE** | | | | |
| Consumption of Raw Material, Components etc. | 18 | 1177242.54 | | 922180.16 |
| Amortisation & Other Charges | 19 | 93589.50 | | 78551.89 |
| Salaries and Wages | 20 | 228715.46 | | 195405.35 |
| Other Expenses | 21 | 96599.36 | | 78849.72 |
| Interest | 22 | 0.45 | | 3.44 |
| Depreciation | 6 | 16878.95 | | 16599.73 |
| Provisions | 22A | 48658.88 | | 42372.21 |
| | | | **1661685.14** | **1333962.50** |
| Deduct :Expenditure relating to | | | | |
| Capital & Other Accounts | 23 | | 71142.99 | 58475.15 |
| Net Expenditure | | | **1590542.15** | **1275487.35** |
| **Profit for the Year** | | | **283952.39** | **268843.24** |
| **Less :** | | | | |
| Provision for Taxation (Net) | | | 74500.00 | 74100.00 |
| Provision for Deferred Taxation (Net) | | | -1973.39 | -1997.89 |
| **Profit After Tax** | | | **211425.78** | **196741.13** |
| **Profit Available for Appropriations** | | | **211425.78** | **196741.13** |
| **APPROPRIATIONS** | | | | |
| Interim Dividend | | 29995.00 | | 29995.00 |
| Proposed Final Dividend | | 12317.00 | | 9353.22 |
| Tax on Dividend (Interim & Final) | | 6943.80 | 49255.80 | 6687.23 |
| General Reserve | | | 162169.98 | 150705.68 |
| **Total of Appropriations** | | | **211425.78** | **196741.13** |
| **Basic Earnings per Equity Share (in Rs.)** | | | **175.46** | **163.27** |
| Notes on Accounts | 24 | | | |

Schedule `1' to`24' and Accounting Policies attached form part of the Accounts.

Subject to our report of even date

**for K.P.RAO & CO**
Chartered Accountants
Firm Regn. No. 003135S

**(Dr. A.K. MISHRA)**
Director Finance

**(ASHOK NAYAK)**
Chairman

**K.VISWANATH**
**Partner**
Membership No. 022812
Place : Bangalore
Date : 17th August 2011

**(ASHOK TANDON)**
Company Secretary

**SCHEDULES FORMING PART OF THE ACCOUNTS AS AT 31ST MARCH 2011**

| Particulars | | 31st March 2011 | 31st March 2010 |
|---|---|---|---|
| | | | (Rs. in Lakhs) |
| **1. CAPITAL** | | | |
| **Authorised** | | | |
| 16,00,00,000(16,00,00,000) Equity Shares of Rs.10 each. | | **16000.00** | **16000.00** |
| **Issued, Subscribed and Paid-up** | | | |
| 12,05,00,000 Equity Shares of Rs.10 each fully paid up. (Of the above shares, 24,00,000 shares of Rs.10 each have been allotted as fully paid-up without payment being received in cash) | | 12050.00 | 12050.00 |
| **2. RESERVES AND SURPLUS** | | | |
| **General Reserve** | | | |
| As per last balance sheet | 800302.26 | | 649596.58 |
| Add: Transfer from profit and loss account | 162169.98 | | 150705.68 |
| | | **962472.24** | **800302.26** |

**3. LOANS**

**Secured**

**Unsecured**

Consortium Loan from State Bank of India, Punjab National Bank, Indian Bank, State Bank of Hyderabad, State Bank of Mysore, State Bank of Patiala, State Bank of Bikaner & Jaipur, State Bank of Travancore, Export Import Bank of India, Bank of Baroda, Indian Overseas Bank, Union Bank of India and Syndicate Bank secured by hypothecation of inventories and all receivables.

| Particulars | 31st March 2011 | 31st March 2010 |
|---|---|---|
| **4. DEFERRED LIABILITIES (Net)** | | |
| **Towards** | | |
| 10/15 years | 166.95 | 177.24 |
| 45 Years | 388.58 | 411.55 |
| | **555.53** | **588.79** |
| **LESS: DEFERRED DEBTS** | | |
| **Considered good** | | |
| 10/15 years | 125.94 | 133.77 |
| 45 years | 412.74 | 436.82 |
| | **538.68** | **570.59** |
| | **16.85** | **18.20** |
| **4A. DEFERRED TAX LIABILITY (Net)** | | |
| As per last Balance Sheet | 150528.68 | 152526.57 |
| Add: Current Year Provision | -1973.39 | -1997.89 |
| | **148555.29** | **150528.68** |

**SCHEDULES FORMING PART OF THE ACCOUNTS AS AT 31ST MARCH 2011**

## 5. FIXED ASSETS [1]

**(Rs. in Lakhs)**

| **Description** | **Cost as at 01-04-10** | **Reclasfn. / Adjustment** | **Additions** | **Deduction / Sales** | **Transfer to(-) from(+) Div.** | **Cost as at 31-03-11** |
|---|---|---|---|---|---|---|
| Land and Development | 1723.27 | | | | | 1723.27 |
| Buildings | 58423.78 | | 10073.56 | 0.03 | | 68497.31 |
| Plant,Machinery and Equipment | 198970.26 | 141.88 | 10350.21 | 220.25 | 5.75 | 209247.85 |
| Roads and Drains | 5151.72 | 0.01 | 98.43 | | | 5250.16 |
| Water supply | 2591.13 | | 24.27 | | | 2615.40 |
| Rail Road siding | 71.07 | | | | | 71.07 |
| Runways | 5507.48 | | | 2.84 | | 5504.64 |
| Equipment and Furniture | 8341.82 | -141.88 | 564.16 | 70.77 | -5.75 | 8687.58 |
| Aircraft / Helicopters | 7816.83 | | | 124.00 | | 7692.83 |
| Transport vehicles | 4755.63 | -0.01 | 303.97 | 77.10 | 0.00 | 4982.49 |
| | **293352.99** | **0.00** | **21414.60** | **494.99** | **0.00** | **314272.60** |
| Previous Year | 263809.20 | 0.00 | 30492.95 | 949.16 | 0.00 | 293352.99 |

## 6. DEPRECIATION & NET BLOCK [2]

| **Description** | **Provision as at 01-04-10** | **Reclasfn. / Adjustment** | **Addition Currt.Yr.** | **Addition Prev.Yr.** | **Transfer to(-) from(+) Div.** | **Deduction / Sales** | **Provision as at 31-03-11** | **Net Block as at 31-03-11** | **Net Block as at 31-03-10** |
|---|---|---|---|---|---|---|---|---|---|
| Land and Development * | 15.73 | | 7.87 | | | | 23.60 | 1699.67 | 1707.54 |
| Buildings | 18041.88 | | 1619.78 | 0.83 | | 0.03 | 19662.46 | 48834.85 | 40381.90 |
| Plant,Machinery and Equipment | 112304.27 | 19.85 | 13505.52 | 111.58 | 1.16 | 204.01 | 125738.38 | 83509.47 | 86665.99 |
| Roads and Drains | 1273.49 | | 76.18 | 0.21 | | | 1349.88 | 3900.28 | 3878.23 |
| Water Supply | 1633.99 | 0.02 | 101.61 | 0.50 | | | 1736.13 | 879.27 | 957.14 |
| Rail road Siding | 71.06 | | | | | | 71.06 | 0.01 | 0.01 |
| Runways | 3371.17 | | 273.07 | | | | 3644.24 | 1860.40 | 2136.31 |
| Equipment and Furniture | 5340.80 | -19.89 | 411.13 | 2.37 | -1.16 | 32.50 | 5700.75 | 2986.83 | 3001.02 |
| Aircraft / Helicopters | 1539.28 | 0.02 | 433.70 | | | 32.41 | 1940.59 | 5752.24 | 6277.55 |
| Transport vehicles | 3211.08 | | 340.62 | -6.02 | 0.00 | 58.11 | 3487.57 | 1494.92 | 1544.55 |
| | **146802.75** | **0.00** | **16769.48** | **109.47** | **0.00** | **327.06** | **163354.66** | **150917.94** | **146550.24** |
| Previous Year | 131052.81 | 0.00 | 15991.63 | 608.10 | 0.00 | 849.80 | 146802.75 | 146,550.24 | 132756.38 |

| | **31-03-11** | **31-03-10** |
|---|---|---|
| Gross value of Assets with M/s MIDHANI | 1195.39 | 97.94 |
| Cumulative Depreciation in respect of Assets with M/s MIDHANI | 88.74 | 10.64 |

| | **31-03-11** | **31-03-10** |
|---|---|---|
| *1 Gross Value of Assets retired from active use* | *1744.20* | *1436.51* |
| *2 Less : Cumulative depreciated value of Assets retired from active use.* | *1710.67* | *1415.02* |
| WDV of assets retired from active use | 33.53 | 21.49 |

* Depreciation for the year includes lease charges for land taken on lease for establishing a unit at Kasaragod.

**5A : INTANGBILE ASSETS - GROSS CARRYING AMOUNT :**

| Classification of Intangible Assets (IA) | As on 1/4/2010 | Addition | Adjustments | As on 31/03/2011 | |
|---|---|---|---|---|---|
| **Internally Generated IA** | | | | | |
| Development Expenditure | 30640.07 | 9518.33 | | 40158.40 | |
| **Other Intangible Assets** | | | | | |
| Licence Fees | 204919.72 | 4448.65 | | 209368.37 | |
| Documentation | 25517.53 | 4059.46 | | 29576.99 | |
| Computer Software | 5926.27 | 1041.44 | | 6967.71 | |
| **Sub Total** | **236363.52** | **9549.55** | | **245913.07** | |
| **Total** | **267003.59** | **19067.88** | | **286071.47** | |
| Previous year | 247821.34 | 19182.25 | | 267003.59 | - |

**6B CUMULATIVE AMORTISATION & IMPAIRMENT LOSS**

| Classification of Intangible Assets (IA) | As on 1/4/2010 | Amortisation during the year | Retirement / Disposal / Adjustments | As on 31/03/2011 |
|---|---|---|---|---|
| **Internally Generated IA** | | | | |
| Development Expenditure | 9335.45 | 3687.54 | | 13022.99 |
| **Other Intangible Assets** | | | | |
| Licence Fees | 51134.33 | 18952.99 | | 70087.32 |
| Documentation | 6135.00 | 2194.81 | | 8329.81 |
| Computer Software | 3776.13 | 1512.26 | | 5288.39 |
| **Sub Total** | **61045.46** | **22660.06** | | **83705.52** |
| **Total** | **70380.91** | **26347.60** | | **96728.51** |
| Previous year | 49750.73 | 20630.20 | | 70380.91 |

**SCHEDULES FORMING PART OF THE ACCOUNTS AS AT 31ST MARCH 2011**

| Particulars | 31st March 2011 | 31st March 2010 |
|---|---|---|
| | | **(Rs. in Lakhs)** |
| **7. CAPITAL WORK IN PROGRESS (AT COST)** | | |
| Buildings | 4623.88 | 8785.82 |
| Plant, Machinery and Equipment | 5335.51 | 11178.98 |
| Roads and Drains | 13.39 | 12.74 |
| Water supply | 157.19 | |
| Plant, Machinery and Equipment under Inspection and in Transit | 1712.01 | 1259.86 |
| | **11841.98** | **21237.40** |
| **8. SPECIAL TOOLS AND EQUIPMENTS** | | |
| Balance as on 1st April | 297825.31 | 301214.53 |
| Addition during the year | 29254.19 | 28809.52 |
| | 327079.50 | 330024.05 |
| Amortised during the year | 38253.02 | 32198.74 |
| Balance as on 31st March | **288826.48** | **297825.31** |
| **9. INVESTMENTS AT COST (NON-TRADE / UN-QUOTED)** | | |
| **Long Term Investment in :** | | |
| M/s BAe-HAL Software Ltd-29,40,000 (29,40,000-P.Y) Equity shares of Rs.10 FV each fully paid | 294.00 | 294.00 |
| M/s Snecma HAL Aerospace Private Ltd -11,40,000 (11,40,000-P.Y) Shares of Rs.100 F.V. each fully paid | 1140.00 | 1140.00 |
| M/s Indo Russian Aviation Ltd - 9,36,525 (9,36,525 -P.Y) Equity shares of Rs. 10 FV each fully paid | 93.65 | 93.65 |
| HAE Co-operative Society of 25 (25 - P.Y) Shares of Rs. 100 FV each fully paid | 0.03 | 0.03 |
| M/s Satnam Apartment Ltd 41 (41 - P.Y) Shares of Rs.100 each at cost for acquisition of a Flat | 0.07 | 0.07 |
| M/s HALBIT Avionics Pvt Ltd -3,82,500 (3,82,500-P.Y) Shares of Rs.100 FV each fully paid | 382.50 | 382.50 |
| M/s HAL Edgewood Technologies Pvt Ltd 3,00,000(3,00,000-P.Y) Shares of Rs.100 FV each fully paid | 300.00 | 300.00 |
| M/s SAMTEL HAL Display Systems Ltd-1,60,000 (1,60,000-P.Y) Shares of Rs 100 FV each fully paid * | 160.00 | 160.00 |
| M/s INFOTECH HAL Ltd - 20,00,000 ( 20,00,000-P.Y) Shares of Rs 10 FV each fully paid ** | 200.00 | 200.00 |
| M/s HATSOFF Helicopter Training Pvt Ltd -3,22,19,999 (2,80,48,499 -P.Y) Shares of Rs.10 FV each fully paid | 3222.00 | 2804.85 |
| M/s TATA HAL Technologies Ltd -43,20,000 (27,35,000 - P.Y.) Shares of Rs. 10 each fully paid *** | 432.00 | 273.50 |
| M/s LIC of India (For Funding Vacation Leave) | 33026.82 | 17417.00 |
| M/s International Aerospace Manufacturing Pvt Ltd - 5,00,000 (Nil-P.Y) Shares of Rs 100 FV each fully paid | 500.00 | |
| | **39751.07** | **23065.60** |

* Share Certificates to the extent of Nil (CY) and Rs. 160 lakhs (PY) awaited as on 31.03.2010.
** Share Certificates to the extent of Nil (CY) and Rs. 200 lakhs (PY) awaited as on 31.03.2010.
*** Share Certificates to the extent of Rs. 125 lakhs (CY) awaited as on 31.03.2011 and Rs.55.50 lakhs (PY) awaited as on 31.03.2010.

**SCHEDULES FORMING PART OF THE ACCOUNTS AS AT 31ST MARCH 2011**

**(Rs. in Lakhs)**

| **Particulars** | | **31st March 2011** | **31st March 2010** |
|---|---|---|---|
| **10. INVENTORIES [3]** | | | |
| **( As certified by Management at lower of cost and net realisable value)** | | | |
| Stocks | | | |
| Raw materials & components | 639547.47 | | 594102.20 |
| Stores and spare parts | 18164.60 | | 16554.14 |
| Construction Materials | 59.52 | | 40.65 |
| | 657771.59 | | 610696.99 |
| Less: Provision for redundancy | 29435.31 | | 26161.07 |
| | | 628336.28 | 584535.92 |
| Loose Tools & Equipment | 6399.79 | | 5661.07 |
| Less: Provision for redundancy | 609.77 | | 566.64 |
| | | 5790.02 | 5094.43 |
| Stock-in-trade | 229063.31 | | 150765.36 |
| Less: Provision for redundancy | | | |
| | | 229063.31 | 150765.36 |
| Work-in-progress | 831609.74 | | 576373.75 |
| Less: Provision for redundancy | | | |
| | | 831609.74 | 576373.75 |
| Miscellaneous Stores | | 28.85 | 38.38 |
| Disposable Scrap | | 509.28 | 653.14 |
| | | **1695337.48** | **1317460.98** |
| Goods under Inspection and in Transit | | | |
| Raw Materials & Components | 43853.47 | | 42574.63 |
| Stores and spare parts | 2533.81 | | 3511.39 |
| Loose Tools & Equipment | 993.33 | | 2456.48 |
| | | 47380.61 | 48542.50 |
| | | **1742718.09** | **1366003.48** |
| *3 Includes those issued to sub-contractors on returnable basis* | | 10688.42 | 6882.19 |
| **11. SUNDRY DEBTORS** | | | |
| Debts outstanding for a period exceeding six months | | | |
| Considered Good [4] | | 57175.34 | 43623.41 |
| Considered Doubtful | | 947.07 | 1020.29 |
| Debts outstanding for a period less than six months | | 174646.28 | 142180.09 |
| | | 232768.69 | 186823.79 |
| Less: Provision for doubtful debts | | 947.07 | 1020.29 |
| | | **231821.62** | **185803.50** |

*4 Debts considered good for which the company holds no security other than debtors personal security.*

SCHEDULES FORMING PART OF THE ACCOUNTS AS AT 31ST MARCH 2011

| Particulars | | 31st March 2011 | 31st March 2010 (Rs. in Lakhs) |
|---|---|---|---|
| **12. CASH AND BANK BALANCES** | | | |
| Cash and Cheques on hand | | 114.74 | 176.17 |
| Bank Balances | | | |
| With scheduled banks in | | | |
| Current Accounts [5] | | 40468.72 | 59254.59 |
| Short term Deposits | | 1969348.28 | 1656332.80 |
| With others | | | |
| Short term Deposits with Financial Institutions | | | 150000.00 |
| | | **2009931.74** | **1865763.56** |

*5 Refer Item No.11 in Sch-24-Explanatory notes*

| Particulars | | 31st March 2011 | 31st March 2010 |
|---|---|---|---|
| **13. LOANS AND ADVANCES** | | | |
| **Loans** | | | |
| Secured - Considered Good | | 976.90 | 1879.43 |
| Unsecured - Considered Good | | 5.64 | |
| **Advances** | | | |
| Secured - Considered Good | | | |
| Goods & Services | | 141392.61 | 31131.39 |
| Capital Assets | | 33.31 | 74.55 |
| Others | | 115.82 | 0.00 |
| Unsecured - Considered good | | | |
| (recoverable in cash or in kind or for value to be received) | | | |
| Goods & Services | | 102067.86 | 234784.72 |
| Capital Assets | | 141.35 | 337.30 |
| Special tools and Equipment | | 31.70 | 38.06 |
| Employees [6] | | 2738.53 | 7007.04 |
| Interest accrued and not due | | 39586.93 | 18536.43 |
| Claims Receivable | | | |
| Considered Good | 276988.14 | | 208414.54 |
| Considered Doubtful | 4998.78 | | 5002.64 |
| | 281986.92 | | 213417.18 |
| Less: Provision for Doubtful Claims | 4998.78 | | 5002.64 |
| | | 276988.14 | 208414.54 |
| **Deposits with** | | | |
| Govt. Departments for Customs Duty & for supplies | 1398.76 | | 1357.16 |
| Public Utility Concerns | 1965.78 | | 1836.72 |
| Others | 1035.19 | | 758.63 |
| Prepaid expenses | 1659.96 | | 1182.43 |
| Advance Tax | 1.40 | | 0.00 |
| | | 6061.09 | 5134.94 |
| | | **570139.88** | **507338.40** |

| | | | |
|---|---|---|---|
| *6 Maximum amount due by the Officers of the Company at any time during the Year* | | *1.27* | *1.25* |

**SCHEDULES FORMING PART OF THE ACCOUNTS AS AT 31ST MARCH 2011**

**(Rs. in Lakhs)**

| **Particulars** | **31st March 2011** | **31st March 2010** |
|---|---|---|
| **14. CURRENT LIABILITIES AND PROVISIONS** | | |
| **Current Liabilities** | | |
| Sundry creditors | | |
| Small Scale Industries | 261.39 | 170.70 |
| Others | 245667.56 | 306194.93 |
| Advances from Defence Customers: | | |
| Defence | 3514667.17 | 2997734.13 |
| Others | 68308.81 | 50766.29 |
| Other Liabilities | 126009.42 | 133866.21 |
| Interest Accrued but not due on : | | |
| Deferred Liabilities | | 0.04 |
| | **3954914.35** | **3488732.30** |
| **Provisions** | | |
| Taxation (Net) | 6352.87 | 12989.83 |
| Proposed Dividend (Including Tax ) | 14315.13 | 10942.80 |
| Gratuity | 15716.64 | 5253.68 |
| Replacement and Other Charges | 30500.92 | 44796.83 |
| Warranty | 80381.03 | 76598.08 |
| Liquidated damages | 10016.44 | 7997.51 |
| | **157283.03** | **158578.73** |
| | **4112197.38** | **3647311.03** |

**SCHEDULES FORMING PART OF THE ACCOUNTS FOR THE YEAR ENDED 31ST MARCH 2011**

(Rs. in Lakhs)

| Particulars | 31st March 2011 | 31st March 2010 |
|---|---|---|
| **16. SALES** | | |
| **Inland Sales** | | |
| Finished Goods | 998624.79 | 813501.93 |
| Repairs and Overhaul | 160679.09 | 163907.84 |
| Spares | 65002.53 | 77437.09 |
| Development | 60482.37 | 63833.49 |
| Miscellaneous | 3832.79 | 2739.02 |
| | 1288621.57 | 1121419.37 |
| Prior period items | -809.68 | 3783.57 |
| **Gross Inland Sales** | **1287811.89** | **1125202.94** |
| **Export Sales** | | |
| Finished Goods | 14048.90 | 11676.92 |
| Repairs and overhaul | 1359.30 | 2096.35 |
| Spares | 8007.74 | 5987.14 |
| Development | 133.88 | 310.33 |
| Miscellaneous | 208.42 | 396.27 |
| | **23758.24** | **20467.01** |
| Prior period items | -19.70 | |
| **Total Export Sales** | **23738.54** | **20467.01** |
| **Total Gross Sales** | **1311550.43** | **1145669.95** |
| **17. OTHER INCOME** | | |
| Transportation - Employees | 127.36 | 134.08 |
| Disposal of Scrap & Surplus / Unserviceable Stores | 965.19 | 661.45 |
| Interest on : Short term Deposits/Loans [7] | 134086.89 | 152560.46 |
| Sundry Advances - Employees | 74.59 | 75.36 |
| Other Deposits | 98.03 | 52.89 |
| Profit on Sale of Assets - Net | 4.52 | 18.49 |
| Canteen | 29.67 | 21.61 |
| Other Welfare schemes | 1647.22 | 1095.63 |
| Miscellaneous [8] | 92672.05 | 41498.28 |
| | 229705.52 | 196118.25 |
| Prior Period Items | 21.02 | -715.64 |
| | **229726.54** | **195402.61** |
| Less : Interest Liability to Customer | 30.15 | 33.00 |
| | **229696.39** | **195369.61** |

*7 Includes TDS deducted* — *11379.75*

*8 Includes Provision no longer required* — *53912.62* — *25644.80*

| Particulars | 31st March 2011 | 31st March 2010 |
|---|---|---|
| **18. CONSUMPTION OF RAW MATERIAL, COMPONENTS, STORES & SPARE PARTS [9]** | | |
| Opening Stock | 610696.99 | 474057.74 |
| Add - Purchases | 1262784.77 | 1081282.41 |
| Add : Subcontracting, Fabrication & Machining Charges | 12312.78 | 15964.39 |
| | 1885794.54 | 1571304.54 |
| Less: Closing stock | 657771.59 | 610696.99 |
| | **1228022.95** | **960607.55** |
| Less : Transfer to | | |
| Special Tools and Equipment | 26149.48 | 21410.95 |
| Capital Works | 45.42 | 101.32 |
| Development Expenditure | 1249.58 | 966.97 |
| Expense Accounts and Others | 23335.93 | 15948.15 |
| | **50780.41** | **38427.39** |
| | **1177242.54** | **922180.16** |

*9 Prior period items included above* — *-335.00*

**SCHEDULES FORMING PART OF THE ACCOUNTS FOR THE YEAR ENDED 31ST MARCH 2011**

(Rs. in Lakhs)

| Particulars | 31st March 2011 | 31st March 2010 |
|---|---|---|
| **19A. AMORTISATION** | | |
| Development Expenditure | 3687.54 | 1721.61 |
| Intangible Assets | 22651.71 | 19046.44 |
| Special Tools and Equipment | 38253.02 | 31728.23 |
| | **64592.27** | **52496.28** |
| Prior period items | 8.35 | 332.63 |
| **Amortisation** | **64600.62** | **52828.91** |
| **19-B - DIRECT INPUT TO WIP** | | |
| Project related Travel | 506.38 | 466.81 |
| Project related Training | 548.88 | 522.16 |
| Project related other Expenditure | 6673.13 | 4969.63 |
| Travel outstation jobs | 70.01 | 152.92 |
| Royalty | 1777.73 | 1633.04 |
| Foreign Technician Fee | 4102.30 | 5197.62 |
| Ground Risk Insurance | 2117.85 | 1624.61 |
| Quality Audit Expenses | 43.25 | 45.82 |
| Collaboration Charges | 32.79 | |
| Design & Development | | 316.14 |
| Sundry Direct Charges- Others | 3567.01 | 3084.11 |
| **Direct input to WIP** | **19439.33** | **18012.86** |
| **19-C - EXPENSES CAPITALISED** | | |
| Licence Fees | 4448.65 | 2368.80 |
| Documentation | 4059.46 | 3506.41 |
| Computer software | 1041.44 | 1834.91 |
| **Expenses capitalised** | **9549.55** | **7710.12** |
| **TOTAL AMORTISATION & Other Charges** | **93589.50** | **78551.89** |
| Prior Period Items | 87.95 | |
| | | |
| **20. SALARIES AND WAGES [10]** | | |
| Salaries, Wages and Bonus | 165899.39 | 154077.39 |
| Contribution to Provident Fund | 13810.79 | 10982.98 |
| Gratuity | 36661.99 | 18945.35 |
| Expenses on Welfare Schemes | 12041.31 | 11052.18 |
| Rent for Hiring of Accomodation for Officers/Staff | 259.20 | 213.68 |
| | 228672.68 | 195271.58 |
| Prior Period Items | 42.78 | 133.77 |
| | **228715.46** | **195405.35** |

*10 Includes Directors' Remuneration*

| | | |
|---|---|---|
| Salaries | 172.74 | 145.64 |
| Contribution to Provident Fund | 12.64 | 14.42 |
| Gratuity | 2.76 | 2.51 |
| Medical Reimbursement | 0.65 | 0.27 |
| Leave travel concession | | 1.07 |
| | **188.79** | **163.91** |

**SCHEDULES FORMING PART OF THE ACCOUNTS FOR THE YEAR ENDED 31ST MARCH 2011**

| | | (Rs. in Lakhs) |
|---|---|---|
| **Particulars** | **31st March 2011** | **31st March 2010** |
| **21. OTHER EXPENSES** | | |
| Shop supplies | 8758.01 | 7972.23 |
| Power and fuel | 13018.67 | 11407.53 |
| Water Charges | 3383.35 | 3413.94 |
| Rent for Office premises etc. | 94.15 | 93.64 |
| Travelling (includes Foreign Travel) | 6135.23 | 5470.98 |
| Training (includes Foreign Training) | 553.86 | 628.09 |
| Repairs: | | |
| Buildings | 4730.88 | 4400.66 |
| Plant, Machinery and Equipment | 7819.36 | 7920.41 |
| Others | 3292.43 | 2127.77 |
| Expenses on Tools and Equipment | 4724.22 | 4330.22 |
| Insurance | 1357.64 | 1188.14 |
| Rates and Taxes | 1736.75 | 592.92 |
| Postage and Telephones | 748.68 | 816.91 |
| Printing and Stationery | 1170.59 | 1028.26 |
| Publicity | 1487.63 | 729.03 |
| Advertisement | 893.08 | 419.32 |
| Bank Charges | 729.30 | 768.39 |
| Exchange Rate Variation (Net) | 5154.95 | -1335.75 |
| Legal Expenses | 182.97 | 96.92 |
| Auditors' Remuneration | | |
| Audit fee | 25.20 | 16.78 |
| Other services | 3.76 | 3.70 |
| Selling Agents Commission | 71.08 | 176.42 |
| Donations | 51.98 | 162.79 |
| Handling Charges | 257.71 | 168.24 |
| Write-off: | | |
| Fixed Assets | 0.63 | 568.39 |
| Stores | 666.57 | 1612.34 |
| Shortages/Rejections | 10.33 | |
| Others | 77.71 | 36.58 |
| Freight and Insurance | 989.86 | 1133.13 |
| Liquidated Damages | 6543.72 | 6141.71 |
| JWG share of Profit | 31.82 | 4.80 |
| Cost of Warranty | 12877.48 | 9713.26 |
| Miscellaneous Operating Expenses [11] | 8296.30 | 7437.26 |
| | 95875.90 | 79245.01 |
| Prior Period Items | 723.46 | -395.29 |
| | **96599.36** | **78849.72** |

*11 Includes*

| | | |
|---|---|---|
| *(i) Director's sitting fees* | *6.60* | *12.04* |

**SCHEDULES FORMING PART OF THE ACCOUNTS FOR THE YEAR ENDED 31ST MARCH 2011**

| | | (Rs. in Lakhs) |
|---|---|---|
| **Particulars** | **31st March 2011** | **31st March 2010** |
| **22. INTEREST** | | |
| Cash credit | | 2.52 |
| Deferred Liabilities | 0.45 | 0.92 |
| | **0.45** | **3.44** |
| **22A. PROVISION FOR REDUNDANCY & DOUBTFUL DEBTS / CLAIMS** | | |
| Replacement and other charges | 3501.82 | 3415.92 |
| Warranty | 29342.10 | 23344.95 |
| Raw Materials and Components, Stores and Spare parts and Construction Materials | 6587.72 | 8037.45 |
| Liquidated Damages | 8619.02 | 5976.15 |
| Doubtful Debts | 133.72 | 521.91 |
| Doubtful Claims | 474.50 | 1075.83 |
| | **48658.88** | **42372.21** |
| **23. EXPENSES RELATING TO CAPITAL ACCOUNT OTHERS** | | |
| Expenses allocated to | | |
| Intangible Assets | 9549.55 | 7710.12 |
| Special Tools and Equipment | 3104.71 | 7398.57 |
| Capital Works | 124.19 | 484.35 |
| Development Expenditure | 8268.75 | 10505.16 |
| Warranty | 12877.48 | 9713.26 |
| Others | 37218.31 | 22663.69 |
| | **71142.99** | **58475.15** |
| **23A. CHANGE IN WORK-IN-PROGRESS/STOCK-IN-TRADE** | | |
| **Accretion/ (Decretion)** | | |
| Opening Balance | | |
| (i) Stock-in-Trade | 150765.36 | 119772.74 |
| (ii) Work-in-Progress | 576373.75 | 404077.76 |
| | **727139.11** | **523850.50** |
| Closing Balance | | |
| (i) Stock-in-Trade | 229063.31 | 150765.36 |
| (ii) Work-in-Progress | 831609.74 | 576373.75 |
| | **1060673.05** | **727139.11** |
| **Accretion/ (Decretion)** | **333533.94** | **203288.61** |
| **23B. CHANGE IN DISPOSABLE SCRAP** | | |
| Opening Balance | 653.14 | 562.89 |
| Closing Balance | 509.28 | 653.14 |
| **Accretion/ (Decretion)** | **-143.86** | **90.25** |
| **Changes in 23A & 23B** | **333390.08** | **203378.86** |

**Schedule - 24 Explanatory Notes** (Rs.in.Lakhs)

**Mandatory Disclosures**

| | | HAL | |
|---|---|---|---|
| | | **31.03.11** | **31.03.10** |
| | **Contingent Liabilities Not Provided For:** | | |
| 1 | Outstanding Letters of Credit & Guarantees | | |
| | (i) Letters of Credit | 76058.53 | 117469.06 |
| | (ii) Guarantees | 317154.68 | 36067.03 |
| | **Total** | **393213.21** | **153536.09** |
| 2 | Claims / Demands against the Company not acknowledged as Debts (Net of Payments): | | |
| | (i) Sales Tax / Entry Tax | 262064.25 | 250843.00 |
| | (ii) Income Tax | 16618.83 | 3520.19 |
| | (iii) Municipal Tax | 47.24 | 44.00 |
| | (iv) Service Tax | 40847.07 | 13982.96 |
| | (v) Others* | 13210.35 | 5849.61 |
| | **Total** | **332787.74** | **274239.76** |
| | *This includes claim made by M/S Pratt & Whitney amounting to Rs376.04 (L). Further, the Counter Claim of Rs.447.44 Lakhs made by HAL Engine Division on M/S Pratt & Whitney pending acknowledgement is shown under Claims Receivable. | | |
| 3 | Estimated amount of contracts remaining to be executed on Capital Account and not provided for is | **15420.33** | **19165.35** |
| 4 | Value of Imports calculated on CIF basis: | | |
| | (i) Raw Materials | 336514.02 | 804899.75 |
| | (ii) Components & Spare parts | 775431.31 | 210694.29 |
| | (iii) Capital Goods | 5589.96 | 12864.63 |
| | (iv) Special Tools | 16258.07 | 11339.69 |
| | **Total** | **1133793.36** | **1039798.36** |
| 5 | Raw Materials, Components & Spare Parts consumed (approx): | | |
| | (i) Imported (including Customs Duty) | 1171509.68 | 889885.66 |
| | (In %ages to total) | 95.40 | 92.64 |
| | (ii) Indigenous | 56513.27 | 70721.89 |
| | (In %ages to total) | 4.60 | 7.36 |
| | **Total (Gross)** | **1228022.95** | **960607.55** |
| | (Total %ages) | 100.00 | 100.00 |
| 6 | Expenditure in Foreign currency on account of | | |
| | (i) Royalty | 1777.73 | 1633.04 |
| | (ii) License Fee | 4143.05 | 2278.90 |
| | (iii) Documentation | 2760.94 | 1119.79 |
| | (iv) Professional, Consultancy & Foreign Tech. Fees | 3235.36 | 3952.07 |
| | (v) Foreign Travel | 882.36 | 1103.00 |
| | (vi) Others | 2890.14 | 2107.76 |
| | **Total** | **15689.59** | **12194.56** |

| | | | |
|---|---|---|---|
| 7 | Earnings in Foreign Exchange : | | |
| | (1) Export on FOB Basis | 21418.95 | 17664.06 |
| | (2) Services | 2291.44 | 2492.62 |
| | (3) Others | 28.15 | 371.76 |
| | **Total** | **23738.54** | **20528.44** |
| 8 | The effect on Profit due to Prior Period Transactions: | -1445.36 | -620.39 |
| 9 | Impact on Profit due to Changes in Accounting Policies: | | |

| | | For 31.03.11 & 31.03.10 | |
|---|---|---|---|
| 10 | With reference to Accounting Policy No. 12, in respect of the following assets, the rates of depreciation adopted vis-à-vis rates prescribed under Schedule XIV of Companies Act, 1956 are as under: | **Rate being charged** | **Schedule XIV Rate** |
| | **Assets** | | |
| | Computers<br>(Capitalised on or after 1-4-93) | 31.70% | 16.21% |
| | CNC machines | 16.21% | 7.42% |
| | Plant, Machinery & Equipments<br>(Where no extra shift depreciation is allowable under<br>Sch XIV of the Companies Act) | 7.42% | 4.75% |
| | Electrical/ Battery / Fuel Cell powered vehicles | 11.31% | 7.07% |
| | Fixed Assets costing Rs. 10000/- and below are depreciated fully in the year of purchase. | | |
| 11 | Balances in Current Account with Foreign Banks | | |
| | SBI Paris | 4.45 | 23.46 |
| | SBI London | 22.39 | 3.49 |
| | JSC VTB Bank, Moscow | 36.11 | 30.40 |
| | Maximum balance outstanding during the year | | |
| | SBI Paris | 95.11 | 129.31 |
| | SBI London | 243.26 | 205.55 |
| | JSC VTB Bank, Moscow | 36.11 | 30.40 |
| 12 | Exemption has been granted to the Company from compliance with the following provisions contained in Part II of Schedule VI to the Companies Act, 1956, as amended; vide Ministry of Law, Government of India letter no. 3/33/72-CL VI dated 06/06/1974. | | |

| **Para** | **Particulars** |
|---|---|
| 3(i)(a) | Details regarding Sales in respect of each class of Goods with quantities thereof. |
| 3(ii) (a)(1) | Value of Raw Materials consumed giving itemwise break-up and quantities thereof. |
| 3(ii) (a)(2) | Opening and Closing Stock of Goods produced giving break-up in respect of each class of goods with quantities thereof. |
| 3(ii) (d) | Value of Opening and Closing Stock of goods, Purchases, Sales and Consumption of Raw Materials with quantitative break-up and Gross Income from services rendered. |
| 4(c) | Details regarding Licensed Capacity, Installed Capacity and Actual Production in respect of each class of Goods Manufactured. |

| | | | |
|---|---|---|---|
| 13 | Long term Investments are carried at cost. Any diminition other than temporary in nature is provided. | | |

**Disclosures as per Accounting Standards**

| | | | |
|---|---|---|---|
| 14 | As per AS-11 relating to Accounting for the effects of changes in the Foreign Exchange rates, | | |
| (a) | Exchange rate differences adjusted to fixed assets during the year amounting to | | |
| (b) | Exchange rate variation recognised in Profit & Loss Account towards Capital Assets | 152.12 | -94.84 |
| (c) | As and when the instalments in respect of deferred debts referred to in Accounting policy No 6 fall due for payment to the Russian Federation,the same is paid by applying the exchange rate ruling on the date of actual payment and liability discharged. The differences arising due to recalculation of debts at the applicable /ruling rate is charged to the revenue at the time of payment and is realised from the customer except to the extent it pertains to Capital Assets. The Assets and Liabilities relating to deferred credit transaction are reinstated as on 31st March each year under Claims Receivable and Current Liabilities. | | |
| 15 | Fixed Assets aquired with financial assistance / subsidy from outside agencies either wholly or partly are capitalised at net cost to the company. | | |
| | Gross block does not include Assets given by the customer for use of their jobs by the Company | 60791.81 | 54105.72 |
| | Amount of Capital WIP of the customer adjusted to Advances received from the Customer is: | 2143.96 | 3522.39 |
| 16 | As per AS-12 relating to accounting for Government Grants, amount received for Fixed Assets | | |
| 17 | As per AS-13 relating to Accounting for Investments, amount being Dividend received from Joint Venture companies. | 32.78 | 123.05 |
| 18 | Provision for Gratuity and Vacation Leave has been made based on Actuarial Valuation. The date of Actuarial valuation is of 31st March. | | |

**Employee Benefits:**

The Company has adopted the Revised Accounting Standard (AS)-15 on Employee Benefits. Consequently, the liability thereon is accounted on the basis of actuarial valuation, and is being recognised as short-term benefits.

**A** **Gratuity:**

The Company has a Gratuity Scheme for its employees, which is a funded plan. Every year the Company funds the Gratuity Trust to the extent of shortfall of the assets over the fund obligations, which is determined through actuarial valuation. As per the Gratuity Scheme, Gratuity is payable to an employee on the cessation of his employment after he has rendered continuous service for not less than 5 (five) years in the Company. For every completed year of service or part thereof in excess of six months, the Company shall pay Gratuity to an employee at the rate of 15 (fifteen) days' emoluments based on the emoluments last drawn with a ceiling of Rs. 10 (Ten) Lakhs.

The following tables summarise the components of net benefit expense recognised in the Profit and Loss Account and the funded status and amounts recognised in the Balance Sheet for the plan as furnished in the Disclosure Report provided by the Actuary:

**Gratuity:**

| | | |
|---|---|---|
| **(i) Change in Benefit Obligations:** | | |
| Present Value of Obligation (PVO) as at the beginning of the year | 46917.66 | 33401.51 |
| Current Service Cost | 1772.14 | 1394.70 |
| Interest Cost | 3416.57 | 2783.70 |
| Acturial (gain) / Loss | 13151.09 | 8113.22 |
| Past Service Cost | 23653.37 | 10372.04 |
| Benefits Paid | (17765.18) | (9147.51) |
| Present Value of Obligation as at the end of the period | 71145.65 | 46917.66 |
| **(ii) Change in Fair Value of Plan Assets:** | | |
| Fair Value of Plan Assets at the beginning of the year | 41663.98 | 32093.18 |
| Expected return on Plan Assets | 3284.76 | 2086.06 |
| Contributions | 26199.03 | 15000.00 |
| Benefit Paid | (17765.18) | (9147.51) |
| Acturial gain / (Loss) on Plan Assets | 2046.42 | 1632.25 |
| Fair Value of Plan Assets at the end of the year | 55429.01 | 41663.98 |
| **(iii) Expenses Recognised in the Statement of Profit & Loss A/C** | | |
| Opening Net Liability | | |
| Current Service Cost | 1772.14 | 1394.70 |
| Interest Cost | 3416.57 | 2783.70 |
| Expected return on Plan Assets | (3284.76) | (2086.06) |
| Net Actuarial (gain) / loss recognised in the period | 11104.68 | 6480.97 |
| Past Service Cost | 23653.37 | 10372.04 |
| Expenses Recognised in the Statement of Profit & Loss | 36661.99 | 18945.35 |
| Actual Return on Plan Assets | 5331.18 | 3718.31 |

| | | | |
|---|---|---|---|
| | **(iv) Amounts Recognised in Balance Sheet:** | | |
| | Present Value of Obligation as at the end of the period | 71145.65 | 46917.66 |
| | Fair Value of Plan Assets at the end of the Period | (55429.01) | (41663.98) |
| | Funded Status | | |
| | Unrecognised Actuarial (gain) / losses | | |
| | Liability recognised in Balance Sheet | 15716.64 | 5253.68 |
| | **(v) Category of Assets as at March 31, 2011:** | | |
| | State Government Securities | 2500.00 | 2500.00 |
| | Govt. of India Securities | 4925.00 | 4925.00 |
| | High Quality Corporate Bonds | 4200.00 | 4800.00 |
| | Investment with Insurer | 68073.42 | 37894.46 |
| | Dues to HAL | -25108.65 | -9413.89 |
| | Others | 839.24 | 958.41 |
| | | **55429.01** | **41663.98** |
| | **vi) Reconciliation of Net Liability for the period** | | |
| | Opening Net Liability | 5253.68 | 1308.33 |
| | Add: Employee Benefit Expenses for the period | 36661.99 | 18945.35 |
| | Less: Contributions by Employer | 26199.03 | 15000.00 |
| | Closing Net Liability | 15716.64 | 5253.68 |
| | **(vii) Principal Assumptions:** | | |
| | Discounting Rate | 8.20% | 7.85% |
| | Salary escalation rate | 6.00% | 6.00% |
| | Expected rate of return on Plan Assets | 9.00% | 9.00% |
| **B** | **Compensated Absences** | | |
| | The Actuarial Liability of Accumulated absences of the employees of the Company as at March 31 | 44521.94 | 33027.97 |
| | Discounting Rate | 8.20% | 7.85% |
| | Salary escalation rate | 9.00% | 6.00% |
| | Retirement Age | 60 years | 60 Years |
| **C** | **Post Retirement Medical Scheme** | | |
| | It is non funded - No impact on the Company's Operations | | |
| 19 | As per AS-16 relating to Borrowing Costs, Amount of Interest capitalised during the year. | Nil | Nil |

20 Keeping in view the nature of business and the sensitive nature of disclosure, it is considered prudent not to disclose information required as per Accounting Standard - 17 regarding Segment Reporting. Such non-disclosure does not have any financial effect on the Accounts of the Company.

Further, the Company has been granted exemption vide Order no.3/33/72-CL-VI dated 6th June,1974 from adherence to the provisions contained in Part II of Schedule VI to the Companies Act,1956 in respect of para 3 (i)(a), 3(ii)(a)(1), 3(ii)(a)(2), 3(ii)(d), 4c relating to similar kind of disclosure.

**21 A Disclosure relating to AS-18 on Related Party Disclosures**

| | | CURRENT YEAR | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| (a) | the name of the transacting related party; | Indo Russian Aviation Limited | BAe HAL Software Limited | M/s Snecma HAL Aerospace Private Limited | SAMTEL HAL Display Systems Limited | M/s HAL-Edgewood Technologies Private Limited | M/s HALBIT Avionics Private Limited | Infotech HAL Limited | M/s HATSOFF Helicopter Training Private Ltd | M/S Tata HAL Technologies Ltd | International Aerospace Manufacturing Pvt Ltd | Multirole Transport Aircraft Ltd |
| (b) | description of the relationship between the parties; | Joint Venture | Joint Venture | Joint Venture | Joint Venture | Joint Venture | Joint Venture | Joint Venture | Joint Venture | Joint Venture | Joint Venture | Joint Venture |
| (c) | description of the nature of the transactions; | Purchase of goods & services | Purchase of goods & services | Purchase of goods & services | Purchase of goods & services | Purchase of goods & services | Purchase of goods & services | Purchase of goods & services | Purchase of goods & services | Purchase of goods & services | Purchase of goods & services | Purchase of goods & services |
| (d) | volume of the transactions either as an amount or as an appropriate proportion; | 3390.43 | 2499.10 | 41.15 | 1638.18 | 256.55 | 285.09 | 37.78 | 585.18 | 28.79 | | |
| | (Previous Year) | (2558.08) | (2864.79) | (27.55) | (140.48) | (254.74) | (199.39) | (0.75) | (1229.86) | (74.21) | | |
| (e) | any other elements of the related party transactions necessary for an understanding of the financial statements; | | | | | | | | | | | |
| | (Previous Year) | | | | | | | | (1543.95) | | | |
| (f) | (i) amounts or appropriate proportions of outstanding items pertaining to related parties at the balance sheet date; | 497.61 | 130.39 | | | | | | 469.20 | | | |
| | (Previous Year) | (320.75) | (126.63) | | | (29.49) | (4.36) | | (1580.84) | | | |
| | (ii)Provisions for doubtful debts from such parties at that date; | | | | | | | | | | | |
| | (Previous Year) | | | | | | | | | | | |
| (g) | amounts written off or written back in the period in respect of debts due from or related parties. | | | | | | | | | | | |
| | (Previous Year) | | | | | | | | | | | |

(h) Key Management Personnel of the Company in Joint Ventures are as follows:

Shri Ashok Nayak - Chairman HAL

Shri N. C. Agarwal - Director (D & D)

Shri P.Soundara Rajan- Director (C P & M)

Shri P.V Deshmukh - Managing Director - (MiG Complex)

Shri S.K. Jha - - Managing Director (Accessories Complex)

Shri D. Shivamurthi - Director (Finance) -till 03.03.2011

Shri Sanjeev Sahi -Director (HR) - till 09.04.2010

Shri R. Srinivasan - Director (HR) -From 28.07.2010

Shri D. Balasunder - Managing Director - (Bangalore Complex) -From 28.07.2010

| | | |
|---|---|---|
| The total salaries including perquisites drawn by the above key Management Personnel from Joint Ventures is | NIL | NIL |

**21 B Disclosure with regard to Joint Ventures**

(a)

| Name of the Joint Venture | BAe HAL Software Ltd. | Indo Russian Aviation Ltd. | M/s Snecma HAL Aerospace Private Ltd. | SAMTEL HAL Display Systems Limited | M/s HAL-Edgewood Technologies Private Limited | M/s HALBIT Avionics Private Limited | Infotech HAL Limited | M/s HATSOFF Helicopter Training Private Ltd | M/S Tata HAL Technologies Ltd (Previously Known as M/s INCAT HAL Aerostructures Ltd) | International Aerospace Manufacturing Pvt Ltd | Multirole Transport Aircraft Ltd |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Country of Incorporation | India | India | India | India | India | India | India | India | India | India | India |
| Share of the Company | 49% | 48% | 50% | 40% | 50% | 50% | 50% | 50% | 50% | 50% | 50% |
| | (49%) | (48%) | (50%) | (40%) | (50%) | (50%) | (50%) | (50%) | (50%) | | |
| Total Assets | 2175.52 | 6939.71 | 2456.82 | 446.58 | 969.70 | 738.92 | 244.31 | 27068.82 | 864.00 | 936.21 | |
| | (3671.00) | (6304.73) | (2297.00) | (400.00) | (873.85) | (980.25) | (400.00) | (20080.38) | (547.00) | | |
| Total liabilities | 2175.52 | 6939.71 | 2456.82 | 446.58 | 969.70 | 738.92 | 244.31 | 27068.82 | 864.00 | 936.21 | |
| | (3671.00) | (6304.73) | (2297.00) | (400.00) | (873.85) | (980.25) | (400.00) | (20080.38) | (547.00) | | |
| Total Income | 3124.29 | 4774.97 | 3099.88 | 1730.43 | 6.83 | 679.03 | 2.26 | 518.90 | 334.63 | -73.73 | |
| | (4290.00) | (2763.39) | (1679.00) | (300.08) | (244.84) | (705.19) | (132.67) | (185.77) | (56.87) | | |
| Dividend Declared | Nil | | 5% | Nil | Nil | Nil | N.A | Nil | Nil | Nil | |
| | (Nil) | 35% | (Nil) | (Nil) | (Nil) | (Nil) | (Nil) | (Nil) | (Nil) | | |
| Dividend Amount | Nil | | 114.00 | Nil | Nil | Nil | N.A | Nil | Nil | Nil | |
| | (Nil) | (68.28) | (Nil) | (Nil) | (Nil) | (Nil) | (Nil) | (Nil) | (Nil) | | |
| Share of Company | Nil | | 57.00 | Nil | Nil | Nil | N.A | Nil | Nil | Nil | |
| | (Nil) | (32.78) | (Nil) | (Nil) | (Nil) | (Nil) | (Nil) | (Nil) | (Nil) | | |
| Contingent Liability | 484.47 | | 648.50 | Nil | Nil | 3.06 | N.A | Nil | Nil | Nil | |
| | (567.00) | (464.60) | (636.40) | (Nil) | (Nil) | (8.72) | (Nil) | (Nil) | (Nil) | | |

The information pertaining to Joint Ventures is based on provisional accounts for the current year and is based on Audited Accounts for the Previous year.

22 **Disclosure relating to AS-19, Accounting of Leases**

| Class of Assets | Leasehold Land | Leasehold Land |
|---|---|---|
| Gross carrying amount | 708.00 | 708.00 |
| Amount of depreciation recognised in Accounts | 7.87 | 7.87 |
| Cumulative Amortisation | 23.61 | 15.74 |
| Impairment loss recognised in Accounts | | |
| Impairment loss reversed in Accounts | | |
| Future minimum lease payments due | | |
| Not later than 1 year | | |
| Later than 1 year and not later than 5 years | | |
| Later than 5 years | | |
| Contingent rent recognised in Accounts | | |

Indirect cost has been treated as Overhead Expenditure

23 **As per AS-20 relating to Earnings per Share (Basic)-**

| | | |
|---|---|---|
| Net Profit After Tax | 211425.78 | 196741.13 |
| Number of Equity Shares of Face Value of Rs.10/- each fully paidup | 120500000 | 120500000 |
| Earnings per Share (in Rupees) - Basic | **175.46** | **163.27** |

24 Break-up of Deferred Tax Liabilities and Assets are given below:

| | | |
|---|---|---|
| **Deferred Tax Liability** | | |
| Depreciation Incl. Intangible Assets | 67902.16 | 66366.97 |
| Special Tools and Equipment | 97999.51 | 100618.62 |
| Accrued Leave Salary | | |
| **TOTAL** | **165901.67** | **166985.59** |
| **Deferred Tax Asset** | | |
| Carry Forward Loss | | 1479.04 |
| Accrued Leave Salary | 15050.61 | 11099.90 |
| Provision against Debtors/Claims | 1674.61 | 1699.62 |
| Statutory Payments | 146.09 | 392.73 |
| Gratuity | 475.06 | 1785.61 |
| **TOTAL** | **17346.38** | **16456.90** |
| **Deferred Tax Liability** | | |
| Opening Balance | 166985.59 | 163538.96 |
| Addition / Reversal during the year | -1083.91 | 3446.63 |
| Net Deferred Tax Liability | **165901.68** | **166985.59** |
| **Deferred Tax Assets** | | |
| Opening Balance | 16456.90 | 11012.39 |
| Addition during the year | 889.49 | 5444.51 |
| Net Deferred Tax Assets | **17346.39** | **16456.90** |
| **Net Deferred Tax Liability** | **148555.29** | **150528.69** |

25 (a) Disclosure with regard to Joint Working Groups

HAL has entered into a Joint Working Agreement with Air India to start Ramp Handling Business and with MSIL & Concor to carry out Air Cargo Handling Business. The Joint Working Group pools together the resources for carrying out its business activity and ownership of the assets vests with the respective working group.

Share of income from Joint Working Groups of the company with Air India, CONCOR and MSIL :

| | | |
|---|---|---|
| Air India | 134.75 | 95.15 |
| CONCOR and MSIL | -57.95 | -50.62 |
| HALCON | 0.08 | 10.89 |

(b) **Disclosure with regard to Joint Working Group:**

| Name of the Joint Working Group | AIJWG | | ACCJWG | | HALCON | |
|---|---|---|---|---|---|---|
| | 2010-11 | 2009-10 | 2010-11 | 2009-10 | 2010-11 | 2009-10 |
| Country of Incorporation | India | | India | | India | |
| Share of Company/ Ownership Interest | 50% | 50% | 33.33% | 33.33% | 50.00% | 50.00% |
| Principal Activities | Flight Handling | | Cargo Handling | | Cargo Handling | |
| Total Assets | 1981.78 | 1423.32 | 577.30 | 633.91 | 666.88 | 817.86 |
| Total Liabilities | 1981.78 | 1423.32 | 577.30 | 633.91 | 359.02 | 510.09 |
| Income - Company's Share | 384.24 | 285.91 | 59.37 | 2.72 | 191.83 | 288.13 |
| Expenditure - Company's Share | 249.49 | 190.76 | 117.32 | 51.34 | 191.75 | 277.24 |
| Profit Company's Share | 134.75 | 95.15 | -57.95 | -50.62 | 0.08 | 10.89 |
| Contingent Liability | NIL | NIL | NIL | NIL | 0 | NIL |

26 Useful life / Amortisation rate used for Intangible Assets

Development Expenditure is amortised over a period not exceeding 10 years. Cost of software which is not an integral part of the related hardware is amortised over a period not exceeding 3 years. Other intangible assets are amortised over production on technical estimates and to the extent not amortised, are carried forward. For Su-30 Project & Sea King Projects, Intangible Assets are being amortised on the number of units delivered based on programmes which at present exceeds 10 years.

27 As per AS - 28 on Impairment Loss - the Impairment Loss recognised in the Books of Accounts NIL NIL

28 The aggregate amount of Research & Development Expenditure recognised as expenses during the period is as below:

**Research and Development Expenditure**

| **Expenditure in R&D included in :** | | |
|---|---|---|
| Raw Material Consumption | 44729.13 | 37286.60 |
| Direct Expenses | 12693.91 | 10249.04 |
| Salaries and Wages | 30218.71 | 24030.26 |
| Other expenses | 3960.45 | 3026.22 |
| Interest | | |
| Depreciation | 1294.30 | 1260.57 |
| Provisions | 372.73 | 2528.16 |
| Inter Services /Common Services | 5427.05 | 4831.42 |
| **Total R & D Expenditure** | **98696.28** | **83212.29** |

29 As per AS 29 relating to Provisions, Contingent Liability and Contingent Assets - the movement of provisions in the Books of Accounts is as follows

| Nature of Provision | Opening Balance | Provision made during the year | Utilisation/ Reversal during the year | Closing Balance |
|---|---|---|---|---|
| Provision for Warranty Charges | 76598.08<br>(67381.44) | 29342.11<br>(23344.95) | 25559.16<br>(14128.31) | 80381.03<br>(76598.08) |
| Provision for Replacement and Other Charges | 44796.82<br>(47625.20) | 3501.82<br>(3415.92) | 17797.73<br>(6244.29) | 30500.91<br>(44796.83) |
| Provision for Redundancy in Raw Material and Components, Stores and Spares, Construction Material and Loose Tools | 26727.71<br>(19354.70) | 6587.72<br>(8037.46) | 3270.35<br>(664.45) | 30045.08<br>(26727.71) |
| Provision for Doubtful Debts | 1020.29<br>(872.91) | 133.72<br>(521.91) | 206.94<br>(374.53) | 947.07<br>(1020.29) |
| Provision for Claims | 5002.64<br>(4916.12) | 474.50<br>(1075.83) | 478.36<br>(989.31) | 4998.78<br>(5002.64) |
| Provision for Gratuity | 5253.68<br>(1308.33) | 36661.99<br>(18945.35) | 26199.03<br>(15000.00) | 15716.64<br>(5253.68) |
| Provision for LD | 7997.51<br>(5265.28) | 8619.02<br>(5976.15) | 6600.08<br>(3243.92) | 10016.44<br>(7997.51) |
| Total | **167396.74**<br>**(146723.98)** | **85320.89**<br>**(61317.57)** | **80111.67**<br>**(40644.81)** | **172605.96**<br>**(167396.74)** |

| | | | |
|---|---|---|---|
| 30 | Gain/Loss arising out of Derivatives | Nil | Nil |
| 31 | Rates & Taxes includes interest on Self Assessment Tax | 370.91 | Nil |
| 32 | Sundry Creditors and Unsecured Advances includes amounts due to Joint Venture for Investments - Company's Share | 750.00 | Nil |
| 33 | Total Land held (in Acres). (Refer Schedule -5 ) | 11267.09 | 11267.09 |

| | | Division | Assets | Acres | Amount |
|---|---|---|---|---|---|
| 33.1 | Instruments of transfer in respect of land and building taken possession by the Company have not been executed | Lucknow/ Kanpur<br>FMD/Kanpur | Land<br>Land<br>Building | 471.08<br>(471.08) | 308.78<br>(308.98)<br>61.80<br>(61.80) |
| 33.2 | Land has been handed over /earmarked to the Government / other agencies pending execution of instruments of transfer. | FMD/ Nasik/ Koraput | Land | 991.79<br>(991.79) | |
| 33.3 | Land has been given on lease to the Government/ other agencies. | FMD/ Nasik/ Lucknow/ Kanpur<br>FMD | Land<br>Land | 199.18<br>(199.18)<br>7500 Sq Ft<br>(Nil) | |

| | | | | | |
|---|---|---|---|---|---|
| 33.4 | HAL Barrackpore Unit is in possession of 22.51 acres(22.51 acres) of land on which the division has its buildings, hangar, Plant & Machinery etc.. The instruments of transfer in favour of division/ company either by way of lease or transfer in respect of this land is pending execution. Provision for lease rental amounting to Rs.29.00 Lakhs (Previous year Rs.28.50 Lakhs) has been provided. The transfer of the land is being pursued with Defence Estate Officer, Kolkata.<br><br>Land under Fixed Assets includes Land taken on lease for establishing a unit at Kasargod at a cost of Rs.708.00 Lakhs (200 acres). This cost is amortised over the lease period of 90 years. The Lease charges for the year amounting to Rs.7.87 (L) has been considered under Depreciation for the year. | | | | |
| 33.5 | FMD Division is holding 2098.831 Acres(2098.831 acres) land of which 10.559 Acres (10.559 acres) is under litigation/encroachment. Titles to land were not in the name of the Company in respect of 173 survey numbers at Aerospace Division. HAL Land measuring 3.2 acres was transferred to BMRCL for Metro Rail in lieu of 6 acres of land at BIAL Devanahalli which is still awaited. 11.19 Acres of Land belonging to Nasik Division is under litigation/ encroachment by 8 persons. Further, about one acre of the land belonging to HAL Koraput Division is encroached upon by the nearby villagers for cultivation.<br><br>At Corporate Office, part of Land i.e 937.422 Sq Mts surrounding the Building has been acquired by KIADB (Karnataka Industrial Area Development Board) and 789.91 Sq Mts handed over to BMRCL (Bangalore Metro Rail Coporation Ltd) for Metro Work. No compensation has been received for the same. | | | | |
| 34 | Special Tools and Equipment includes Tools and Equipment in progress, under inspection and in transit. | 2700.87 | 3554.60 | | |
| 35 | Sales have been set up in accordance with Para 10.1 of the Accounting Policy based on Signaling Out Certificate. Sales include Rs.58731.43 Lakhs (Profit of Rs. 6441.54 Lakhs thereon) in respect of 15 ALH pending ferrying out, as on date, by the Customers as per the Contract. The ferry out of Helicopters will be after formation of new Squadron, Training of Pilots etc. which is currently in progress by the Customers. | | | | |
| 36 | Sales include deliveries for which amendment to firm task is awaited from the customer. | 2363.00 | 2959.30 | | |
| 37(a) | In respect of the materials received under bulk contracts with the Russian Federation where the suppliers do not indicate itemized prices, the value of materials issued is assessed on technical estimates to exhibit a fair value of the closing Work-in-Progress, and Inventory of these materials is subject to adjustment at the end of the project. | | | | |
| 37(b) | The Total Inventory of :- | 1742718.09 | 1366003.48 | | |
| | (i) does not include materials belonging to customers but held by the Company on their behalf, worth approximately | 43336.66 | 45457.70 | | |
| 38 | Liability towards LD recovered by the Company payable to M/s HMT in terms of BIFR Rehabilitation Scheme | 67.58 | 10.06 | | |

39 In IMGT Division:

a) Inventory worth Rs.1490.27 Lakhs (Previous year Rs.1463.06 Lakhs) pertaining to Avon Engines is being held in the bonded warehouse. This inventory includes material for which customs duty is payable if the material is utilized by ONGC for North Zone fields, whereas engine from South Zone Fields are duty exempted.

The exact amount of Customs duty liability cannot be assessed and provided as the arising of the engine from different zones are not known.

b) Sale to the extent of Rs. Nil (Previous Year Rs. 68.01 Lakhs) in respect of Repair/ Overhaul activity has been reversed on account of items diverted (cannibalized) from ONGC's Industrial Avon Gas Turbine and used for current year production. The equivalent amount of liability is kept in material loan from customer under Sundry Creditors.

40 Balances in Debtors' and Creditors' Accounts, Loans and Advances, Claims Receivables, Advances from the Government of India and Deferred Debts/Liabilities, Deposits, Materials lying with subcontractors and others have not been confirmed, though confirmations were sought.

41 a) In terms of Pricing Policy agreed with IAF, prices approved are exclusive of taxes and duties i.e. Sales Tax, Service Tax etc. In case such taxes are levied, the same will be reimbursed by the customer at actuals, if the customer does not produce necessary exemption.

b) In view of the Supreme Court Orders in the case between HAL Vs. State of Karnataka and HAL Vs. State of Orissa in favour of HAL, the Company is of the view that no Sales Tax/VAT is payable on supplies made to Ministry of Defence. Karnataka Appellate Tribunal (KAT) in its order dated 18.04.2006 and 08.03.2007 also upheld that no occasion of a transaction of sale between HAL & Government of India would attract sales tax Commercial Tax Department had issued Re-Assessment Order and raised demand for Rs 1512.77 Crs. during February 2010. Aggrieved by the order of Commercial Tax Department, Company went on appeal with Hon'ble High Court of Karnataka. Hon'ble High Court in its order dated 11.03.2010 remanded the assessments for the years 1994-95 to 2000-01 to the Assessing Authority. Further, with reference to the Writ Petitions/Writ Appeal filed by the Company for the Assessment Years 2005-06 to 2008-09, the Hon'ble High Court in the order passed in March 2010 also remanded the Assessment to the Departmental Appellate Authority.

Aggrieved by the orders of Hon'ble High Court of Karnataka, Company has filed Special Leave Petitions (SLPs) in the Hon'ble Supreme Court of India. In its order dated 11th January 2011, the Hon'ble Supreme Court of India has directed that Secretary, Defence Production, Ministry of Defence (MOD) and Chief Secretary, Govt. of Karnataka to have meeting and try to resolve the issues arising for consideration of the Hon'ble Supreme Court.

Several meetings have been held between officials of Department of Defence Production, MOD, HAL, Commercial Tax Department and Finance Department, Govt. of Karnataka to verify and establish the factual details of transactions. The verification is in process and after completion of the same, the matter will be brought up before Hon'ble Supreme Court of India.

42 Information under Micro, Small & Medium Enterprises Development Act:

| | | |
|---|---|---|
| 1) Principal Amount and Interest due thereon remaining unpaid to Supplier at the end of the year | 244.89 | 152.95 |
| 2) Amount of Interest paid during the year along with the amount of payment made to the Supplier beyond the appointed date during the accounting year. | Not Ascertained | Not Ascertained |
| 3) Amount of Interest due & payable for the period of delay in making payment.(Payments which have been made beyond the appointed date without adding the interest specified in the Act) | Not Ascertained | Not Ascertained |
| 4) The amount of interest accrued and remaining unpaid at the end of the year ending 31st March 2011. | Not Ascertained | Not Ascertained |

43 The Accounts for the year approved by the Board of Directors and certified by the Statutory Auditors on 20.07.2011 were revised in the light of the C&AG's observations under Section 619 (4) of the Companies Act, 1956

| | | |
|---|---|---|
| a) Sales increase / (decrease) by | nil | nil |
| b) Total Expenditure increase / (decrease) by | nil | nil |
| c) Income increase / (decrease) by | nil | nil |
| d) Profit Before Tax increase / (decrease) by | nil | nil |
| e) R& D Expenditure increase / (decrease) by | nil | nil |
| f) Intangible Assets increase/ (decrease) by | nil | nil |
| g) Current Assets increase / (decrease) by | nil | nil |
| h) Current Liabilities increase / (decrease) by | nil | nil |
| i) Schedule 24 disclosure: | Additional Disclosure in Note No. 35 | nil |

44 Referring to the Accounting policy No.10, current year sales includes the element of differential sales arising out of finalisation of prices relating to earlier years with the customer. The details are as below:

| | | |
|---|---|---|
| Finished Goods | 114.73 | 66.75 |
| Repair & Overhaul | 1015.92 | -732.23 |
| Spares | | 2.48 |
| Development | | |
| Miscellaneous | | |
| **Total** | **1130.65** | **-663.00** |

45 Figures in brackets relates to previous year and they have been rearranged or regrouped wherever necessary.

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Schedule '1' to 24 and Accounting Policies attached form part of the Accounts.

Subject to our report of even date

| | | |
|---|---|---|
| for K.P.RAO & CO | **Dr. A.K. MISHRA** | **ASHOK NAYAK** |
| Chartered Accountants | Director Finance | Chairman |
| Firm Regn. No. 003135S | | |
| **K.VISWANATH** | | **ASHOK TANDON** |
| Partner | | Company Secretary |

Place : Bangalore.

Date : 17th August, 2011

## STATEMENT OF CASH FLOW FOR THE YEAR ENDED

( Rs. in Lakhs )

| Sl. No. | Particulars | 31st March 2011 | | 31st March 2010 | |
|---|---|---|---|---|---|
| I. | **CASH FLOW FROM OPERATING ACTIVITIES** | | | | |
| | **Net Profit Before Tax** | | **283952.39** | | **268843.24** |
| | **Adjustment To Reconcile Net Income To Net Cash** | | | | |
| | **Providing by Operating Activities:** | | | | |
| | Depreciation | 16878.95 | | 16599.73 | |
| | Amortisation | 64600.62 | | 52828.91 | |
| | Interest Paid | 0.45 | | 3.44 | |
| | Profit On Sale of Fixed Assets | (4.52) | | (18.49) | |
| | Interest Received - Net of Interest Liability to Customer | (134229.37) | | (152655.71) | |
| | Dividend Received | (32.78) | | (123.05) | |
| | **Sub Total** | | **(52786.65)** | | **(83365.17)** |
| | **Operating Profit Before Working Capital Changes** | | **231165.74** | | **185478.07** |
| | **Adjustment For Changes In Operating Assets And Liabilities:** | | | | |
| | Trade And Other Receivables | (56326.25) | | 135438.02 | |
| | Inventories | (376714.62) | | (322884.86) | |
| | Trade Payables | 387014.03 | | (63985.59) | |
| | **Sub Total** | | **(46026.84)** | | **(251432.43)** |
| | **Adjustment For Other Assets** | | **185138.90** | | **(65954.36)** |
| | Special Tools and Equipment | (29254.19) | | (28809.52) | |
| | Intangible Assets | (19067.88) | | (19182.25) | |
| | **Sub Total** | | **(48322.07)** | | **(47991.76)** |
| | **Cash Generated From Operations** | | **136816.83** | | **(113946.12)** |
| | Direct Tax Paid | | **(52493.35)** | | **(58140.00)** |
| | **Net Cash Provided By Operating Activities (a)** | | **84323.48** | | **(172086.12)** |
| II. | **CASH FLOW FROM INVESTING ACTIVITIES** | | | | |
| | Purchase Of Fixed Assets [1] | (12019.18) | | (29944.41) | |
| | Sale Of Fixed Assets | 172.46 | | 117.84 | |
| | Interest Received - Net Of Interest Liability To Customer | 134229.37 | | 152655.71 | |
| | Dividend Received | 32.78 | | 123.05 | |
| | Investments in Joint Ventures | (16685.47) | | (18662.62) | |
| | **Net Cash Provided By (used in) Investing Activities (b)** | | **105729.96** | | **104289.57** |
| III. | **CASH FLOW FROM FINANCING ACTIVITIES** | | | | |
| | Repayment of Deferred Liabilities - Net | (1.35) | | (180.33) | |
| | Interest Paid | (0.45) | | (3.44) | |
| | Dividend Paid | (45883.47) | | (40711.92) | |
| | **Net Cash Provided By Financing Activities ( c )** | | **(45885.27)** | | **(40895.69)** |
| | **Abstract :** | | | | |
| I. | Net Cash Provided By Operating Activities ( a ) | | 84323.48 | | (172086.12) |
| II. | Net Cash Provided By (used in) Investing Activities ( b ) | | 105729.96 | | 104289.57 |
| III. | Net Cash Provided By Financing Activities ( c ) | | (45885.27) | | (40895.69) |
| | **Net Increase In Cash And Cash Equivalents During The Year** | | **144168.18** | | **(108692.25)** |
| | Cash And Cash Equivalents At Beginning Of The Year [2] | | 1865763.56 | | 1974455.79 |
| | Cash And Cash Equivalents At The End Of The Year [2] | | 2009931.74 | | 1865763.56 |
| | **Net Increase In Cash And Cash Equivalents During The Year** | | **144168.18** | | **(108692.25)** |

Note :

1 Purchase of Fixed Assets are stated inclusive of capital work-in-progress between the beginning and end of the period.

2 Cash and Cash Equivalents include Short Term Deposits with Banks and Financial Institutions.

3 Previous year figures are regrouped wherever necessary.

4 Cash and Cash Equivalents are available fully for use.

| | | |
|---|---|---|
| **for K.P.RAO & CO** | **(Dr. A.K. MISHRA)** | **(ASHOK NAYAK)** |
| Chartered Accountants | Director Finance | Chairman |
| Firm Regn. No. 003135S | | |
| **K.VISWANATH** | | **(ASHOK TANDON)** |
| **Partner** | | Company Secretary |
| Membership No. 022812 | | |

Place :Bangalore

Date : 17th August, 2011

# HINDUSTAN AERONAUTICS LIMITED

## BUSINESS PROFILE

### BALANCE SHEET ABSTRACT AND COMPANY'S GENERAL BUSINESS PROFILE

**I Registration Details**

| State Code | 08 |
|---|---|

Registration No. CIN

U35301KA1963GOI001622

Balance Sheet Date

| Date | Month | Year |
|---|---|---|
| 31 | 3 | 2011 |

**II Capital Raised During The Year (Amount in Rs. Lakhs)**

| Public Issue | Rights Issue |
|---|---|
| NIL | NIL |
| **Bonus Issue** | **Private Placement** |
| NIL | NIL |

**III Position Of Mobilisation And Deployment Of Funds (Amount in Rs. Lakhs)**

| Total Liabilities | Total Assets |
|---|---|
| 1123094.38 | 1123094.38 |

**Sources of Funds**

| Paid-up Capital | Reserves & Surplus |
|---|---|
| 12050.00 | 962472.24 |
| **Secured Loans** | **Unsecured Loans + Deferred Liabilities & Taxes** |
| 0.00 | 148572.14 |

**Application Of Funds**

| Net Fixed Assets+ Capital WIP + Intangible Assets+Special Tools | Investments |
|---|---|
| 640929.36 | 39751.07 |
| **Net Current Assets + Deferred Tax Assets** | **Misc. Expenditure** |
| 442413.95 | |
| **Accumulated Losses** | |
| NIL | |

**IV Performance Of The Company (Amount in Rs. Lakhs)**

| Turnover | Total Expenditure (Net) |
|---|---|
| 1311550.43 | 1027598.04 |

| Profit/Loss Before Tax | | Profit/Loss After Tax | |
|---|---|---|---|
| + | 283952.39 | + | 211425.78 |

(Tick appropriate box '+' for Profit,' -' for Loss)

| Earnings Per Share in Rs. | Dividend Rate % (Including Dividend Tax) |
|---|---|
| 175.46 | 408.76 |

**V Generic Names Of Three Principal Products/Services Of The Company**

| | | |
|---|---|---|
| 1. | Item Code. No. | **8802.20** |
| | Product | Fighter, Transport and Trainer Aircraft |
| 2. | Item Code. No. | **8802.11** |
| | Product | Helicopters |
| 3. | Item Code. No. | **8803.30** |
| | Product | Parts of Aircraft and Helicopters |

**(Dr. A.K. MISHRA)**
Director Finance

**(ASHOK NAYAK)**
Chairman

**(ASHOK TANDON)**
Company Secretary

Place :Bangalore
Date : 17th August, 2011

# STATUTORY AUDITOR'S REPORT FOR THE FINANCIAL YEAR 2010-11

To

**The Members of Hindustan Aeronautics Limited, Bangalore.**

We have audited the attached Balance sheet of Hindustan Aeronautics Limited, Bangalore as at 31st March 2011 and also the Profit & Loss account and Cash flow statements for the year ended on that date annexed thereto which incorporates all the 37 Units of Hindustan Aeronautics Limited audited by the Unit Statutory Auditors in accordance with the allocation made by the comptroller & Auditor General of India, New Delhi, our work being confined to the Consolidated Annual Accounts only. This includes two foreign branch offices incorporated in the respective Unit accounts audited by that Unit statutory auditor. The consolidated accounts takes into account particulars and information made available to us and also changes carried out at consolidation. 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. Pursuant to Comptroller and Auditor General of India's observation under Section 619(4) of the Companies Act, 1956, the accounts adopted by the Board of Directors on 19th July 2011 have been revised. The impact of the revision is as stated in note no. 43 of Schedule 24 of the accounts. This report supercedes our earlier report dated 20th July 2011.**

3. We have 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 misstatements. 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.

4. As required by the Companies (Auditor's Report) Order, 2003 as amended by the Companies (Auditors Report) (Amendment) Order, 2004, issued by the Central Government of India in terms of Sub-section 4(A) of Section 227 of the Companies Act, 1956 of India (the Act) we enclose in the annexure a statement on the matters specified in paragraphs 4 and 5 of the said order.

5. Further to our comments in the annexure referred to above, we report that:-

A.

(1) **The Company has not complied with Accounting Standard 17 "Segment Reporting" disclosure as stated in Note No. 20 of Schedule 24 of the accounts.**

(2) **Attention is invited to Note No. 41 of Schedule 24 of the accounts, regarding taxes and duties i.e., sales tax, value added tax, service tax etc., not charged on invoices raised in respect of sale of aircraft as well as repair and overhaul in some of the Divisions. The company has not provided for the demand from the Commercial Taxes Department, since the demand is disputed by the company. The same is disclosed as a contingent liability in note no.2 to Schedule 24 of the accounts. The respective agreements for such sale and repair / overhaul provide for furnishing an exemption certificate or reimbursement of sales tax and similar statutory levies when determined. However, the reimbursement of penalties, if any, and / or interest levied on such non-payments have not been dealt with in the agreement and the same is not quantified.**

(3) **Attention is invited to Note No.8 of Schedule 24 of the accounts, regarding the net impact of Prior Period transactions on current year profit amounting to Rs.1445.36 lakhs (previous year Rs.620.39 lakhs overstated) and consequently current year profit is understated to that extent.**

(4) **Attention is invited to Note No.40 of Schedule 24 of the accounts, regarding the impact, if any, on profit consequent to such non-confirmation of balances by the concerned parties is not ascertainable. Further, the deferred liability and deferred assets as reflected in Schedule 4 of the accounts, are subject to confirmation from respective parties.**

(5) **Attention is invited to Note No.35 of Schedule 24 of the accounts, regarding Sales being inclusive of 15 ALH Sales of Rs.58731.43 Lakhs, and consequential profit of Rs.6441.54 Lakhs thereon, pending ferrying out as on date, by the customers as per the contract.**

(6) **The net ascertainable impact due to above observations from Sl. No.1 to 5 on the profit for the year is that the profit for the year is understated by Rs.1445.36 Lakhs.**

B. We have obtained all the information and explanations, which to the best of our knowledge and belief were necessary for the purposes of our audit;

C. In our opinion, proper books of accounts as required by law have been kept by the Company so far as appears from our examination of those books. The Units' Statutory Auditors' Reports have been forwarded to us and these have been appropriately dealt with. We further state that the disclosure in note no 21B of schedule 24 of the company's share of Assets, Liabilities, Income and Expenditure in the joint venture is based on unaudited financials statements as provided by the respective operators of joint ventures.

D. The Balance sheet, Profit & Loss Account and Cash Flow Statement dealt with by this report are in agreement with the books of accounts and with the audited accounts from the Units.

E. In our opinion, the Balance sheet, Profit & Loss Account and Cash Flow Statement dealt with by this report comply with Accounting standards referred to in sub-section 3(C) of Section 211 of the Companies Act, 1956 **except Accounting Standard-17 vide Para 5A(1) above.**

F. In terms of Circular No. GSR 829(E) dated 21.10.2003 issued by Ministry of Law, Justice and Company Affairs, Government of India, the Company being Government Company, is exempt from provisions of Section 274(1)(g) of the Companies Act, 1956 regarding Disqualification of Directors.

G. In our opinion and to the best of our information and according to the explanations given to us, the said Accounts read together with disclosures in Sch.1 to 24, including Explanatory notes and significant Accounting Policies, all forming integral part of the said accounts and subject to our observations as above, give the information required by the Companies Act, 1956, 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 31st March 2011;

(ii) In case of the Profit & Loss Account, of the profit for the year ended on that date; and

(iii) In case of the Cash Flow Statement, of the cash flows for the year ended on that date.

For K.P. Rao & Co.,
Chartered Accountants,

Name: **K. Viswanath**
(Partner)
Membership No : 022812
Place: Bangalore.
Date:17th August 2011

**Annexure to the Audit Report of Hindustan Aeronautics Limited for the year ended 31st March 2011**

As required by the Companies (Auditor's Report) Order, 2003, as amended by the Companies (Auditors Report) (Amendment) Order 2004, issued by the Government of India in terms of Section 227(4A) of the Companies Act, 1956 of India (the Act), in our opinion and on the basis of such checks of books and records as were considered appropriate, and according to the information and explanations given to us during the normal course of audit, which were necessary to the best of our knowledge and belief and based on the reports of the Auditors of all the units (as we have been appointed to audit the Consolidated Annual Accounts only), and as referred to in paragraph 4 of our Main report, we further report that:

(1) In respect of its Fixed Assets:

(a) The Company has maintained proper records showing full particulars including quantitative details and situation of fixed assets. The fixed assets are physically verified by the Management according to a phased programme designed to cover all the items over a period of 1 to 5 years which is reasonable having regard to the size of the Company and nature of its assets. Pursuant to the programme, a portion of the fixed assets have been physically verified by the Management during the year and no material discrepancies between the book records and physical inventories have been noticed.

(b) In our opinion and according to the information and explanations given to us the Company has not disposed of substantial part of Fixed Assets during the year and hence the going concern status of the Company is not affected.

(2) In respect of Inventories:

(a) The stocks of Raw-materials, Stores and Spare parts have been physically verified by the Management at reasonable intervals.

(b) Procedure of Physical verification of Inventories followed by the Management is reasonable and adequate in relation to the size of the Company and nature of its business.

(c) The Company is maintaining proper records of Inventory. The discrepancies noticed between Physical stocks and the book records were not material and have been dealt properly dealt with in the books of accounts of the company.

(3) In respect of Loans and Advances:

There are no Loans taken from the Companies listed in the register maintained under Section 301 of the Companies Act. The Company has not granted any loans and advances in the nature of loans listed in the register maintained under Section 301 of the Companies Act. Advances to employees have been given who are generally regular in repayment of principal and interest as applicable.

(4) There are adequate internal control procedures commensurate with the size of the Company and the nature of its business with regard to purchase of Inventory and Fixed assets and with regard to sale of goods and services. During the course of audit and according to the information and explanations given to us, we have not observed any continuing failure to correct major weaknesses in internal control system.

(5) In respect of transactions covered under Section 301 of the Companies Act, 1956:

(a) In our opinion and according to the information and explanation given to us, there are no transactions that need to be entered into the register maintained U/s 301 of the Companies Act, 1956.

(b) In view of the above, clause 4(v)(b) is not applicable to the Company.

(6) The Company has not accepted deposits from the public under Section 58(A), 58AA or any other relevant provisions of the Companies Act, 1956 during the year.

(7) Internal Audit is conducted by firms of chartered accountants appointed. Although the scope of internal audit is commensurate with the size of the company and nature of the business, ***the coverage needs to be further strengthened.***

(8) The Company is not covered by the requirements of Maintenance of Cost records under Section 209(1)(d) of the Companies Act, 1956.

(9) (a) According to the information and explanations given to us, there are no undisputed Statutory dues payable in respect of Provident fund, Employees State Insurance, Wealth tax, Customs duty, Excise duty, Income Tax, Sales tax, Cess and other statutory dues which are outstanding as of 31$^{st}$ March 2011 for a period more than six months from the date they became payable.

(b) The disputed Statutory dues aggregating to Rs 322191 lakhs have not been remitted on account of matters pending before appropriate authority as under:

| Sl. No. | Nature of the dues | Forum where dispute is pending | Amount in Rs. Lakhs. | Statute |
|---|---|---|---|---|
| 1. | Sales Tax/Entry Tax / Works Contract | Appellate authority. | 262064.25 | Sales Tax Act |
| 2. | Income Tax | Appellate authority | 16618.83 | Income Tax Act |
| 3. | Municipal Tax | Appellate authority | 47.24 | State Municipal Tax Act |
| 4. | Water Cess | Appellate authority | 499.08 | Hyderabad Metropolitan Water Supply and Sewerage Act 1989 |
| 5 | Service Tax | Appellate authority | 40847.07 | Service Tax Act |
| 6. | Non Agricultural Cess | Appellate authority | 2002.05 | State Municipal Tax Act |
| 7. | EPF | Appellate authority | 112.48 | Provident Fund Act |
| | **Total:** | | **322191.00** | |

(10) The Company has no accumulated losses as at 31st March 2011 and has not incurred any Cash loss during the financial year ended on that date or in the immediately preceding financial year.

(11) The Company has not defaulted in repayment of dues to Financial institutions or banks .

(12) The Company has not granted loans & advances on the basis of security by way of pledge of shares, debentures and other securities.

(13) The Company is not a Chit fund or a nidhi/mutual benefit fund/society. Therefore, clause 4(xiii) of the Order is not applicable.

(14) According to the information and explanations given to us, the Company is not dealing in or trading in shares, securities, debentures and other investments and accordingly the provision of Clause 4(xiv) of the Order are not applicable to the Company.

(15) The Company has not given guarantees for loans taken by others from Banks/Financial Institutions.

(16) The Company has not raised any new term loans during the year. The term loans outstanding at the beginning of the year were applied for the purpose for which they were raised.

(17) According to the information and explanations given to us and on the overall examination of the Balance sheet of the Company we are of the opinion that no funds raised on short-term basis have been used for long term investments.

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

(19) The Company has not issued any debentures during the year. The debentures issued in earlier years have been redeemed in August 2006.

(20) The Company has not raised any money by way of Public issue during the year.

(21) Based on audit procedures performed and according to information and explanation furnished to us, no fraud on or by the Company has been noticed or reported during the year under review.

For K.P. Rao & Co.,
Chartered Accountants,

Name: **K. Viswanath**
(Partner)
Membership No.022812
Place: Bangalore.
Date: 17th August 2011

**Observations by the Statutory Auditors on the Accounts of Hindustan Aeronautics Ltd., Bangalore for the year ended 31st March, 2011 and Replies by the Company.**

| Sl. No. | Auditor's Qualifications | Company's Replies |
|---|---|---|
| 1. | **The Company has not complied with Accounting Standard 17 "Segment Reporting" disclosure as stated in Note No. 20 of Schedule 24 of the accounts.** | Keeping in view the nature of business and the sensitive nature of disclosure, it is considered prudent not to disclose information required as per Accounting Standard-17 regarding Segment reporting. Such non-disclosure does not have any financial effect on the accounts of the Company.<br><br>Further, the Company has been granted exemption vide order No.3/33/71-CL-VI dated 6th June 1974 from adherence to the Provisions contained in Part-II of Sch.VI to the Companies Act, 1956 in respect of para 3(1)(a), 3(ii)(a)(1), 3(ii)(a)(2), 3(ii)(d) & 4C.<br><br>Disclosure in this regard has been made at Note-20 of Sch.24 – Notes on Accounts. |
| 2. | **Attention is invited to Note No. 41 of Schedule 24 of the accounts, regarding taxes and duties i.e., sales tax, value added tax, service tax etc., not charged on invoices raised in respect of sale of aircraft as well as repair and overhaul in some of the** | The Company is filing the Sales tax returns regularly. Wherever demands have been raised, based on such assessments and disputed by the Company, the same have been disclosed in Note No.2 of Sch.24. |

| | | |
|---|---|---|
| | **Divisions. The company has not provided for the demand from the Commercial Taxes Department, since the demand is disputed by the company. The same is disclosed as a contingent liability in Note No. 2 to Schedule 24 of the accounts. The respective agreements for such sale and repair / overhaul provide for furnishing an exemption certificate or reimbursement of sales tax and similar statutory levies when determined. However, the reimbursement of penalties, if any, and / or interest levied on such non-payments have not been dealt with in the agreement and the same is not quantified.** | In terms of Pricing policy agreed with the main customer, prices approved are exclusive of taxes and duties, i.e., Sales tax etc. In case, such taxes are levied, the same will be reimbursed by the customer at actuals, if the customer does not produce necessary exemption. As per this agreement, in case there is any liability for sales tax, wherever it has not been paid, the same, on payment, will be recovered from the customer resulting in nil effect on the accounts of the Company. These facts have been sufficiently disclosed in Note No.41 of Sch.24 – Notes on Accounts and have been consistently accepted by the audit. |
| 3. | **Attention is invited to Note No. 8 of Schedule 24 of the accounts, regarding the net impact of Prior Period transactions on current year profit amounting to Rs. 1445.36 lakhs (previous year Rs.620.39 lakhs overstated) and consequently current year profit is understated to that extent.** | Provisions of AS-5 have been complied with, in Accounting of Prior Period transactions. Existing disclosure is considered adequate. |
| 4. | **Attention is invited to Note No.40 of Schedule 24 of the accounts, regarding the impact, if any, on profit consequent to such non-confirmation of balances by the concerned parties is not** | Formal confirmation of balances from Defence customers like IAF, Army, Navy, Coast guard are not forthcoming despite best efforts by the Company. However, the balances are |

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|---|---|---|
| | **ascertainable. Further, the deferred liability and deferred assets as reflected in Schedule 4 of the accounts, are subject to confirmation from respective parties.** | reconciled between the Units and the Customer at periodic intervals. In fact, the balances between IAF and the Company are jointly certified / reconciled between the Unit Finance Head and AO(DAD) on a monthly basis. In respect of other customers, confirmation from all the customers are not being obtained although called for by Units / Divisions.<br><br>Disclosure regarding non-confirmation of balances including Deferred assets and Deferred liabilities is made by the Company at Note No.40 of Sch.24 – Notes on Accounts. |
| 5. | **Attention is invited to Note No.35 of Schedule 24 of the accounts, regarding Sales being inclusive of 15 ALH Sales of Rs.58731.43 Lakhs, and consequential profit of Rs.6441.54 Lakhs thereon, pending ferrying out as on date, by the customers as per the contract.** | The Explanatory Note No.35 of Sch.24 – Notes on Accounts indicates the number of helicopters pending to be ferried out as of date of Certification of Accounts (17.08.2011) and the circumstances to the same were elaborated as to why they could not be ferried out. |

**Confidential** सं./ No. Reports-II/HAL-A/Cs (10-11)/11-12/ 460

प्रधान निदेशक वाणिज्यिक लेखापरीक्षा एवं पदेन सदस्य
लेखापरीक्षा बोर्ड का कार्यालय, बेंगलूर - 560 001.

**OFFICE OF THE PRINCIPAL DIRECTOR OF COMMERCIAL AUDIT and Ex-Officio MEMBER, AUDIT BOARD, BANGALORE - 560 001.**

सत्यमेव जयते

दिनांक /DATE : 8 September 2011

To
Shri Ashok Nayak,
Chairman,
Hindustan Aeronautics Limited,
Corporate Office,
#15/1, Cubbon Road,
Bangalore – 560 001.

Sir,

Sub: Comments of the Comptroller and Auditor General of India under section 619 (4) of the Companies Act, 1956.

I forward herewith **Nil Comments Certificate** of the Comptroller and Auditor General of India under Section 619(4) of the Companies Act, 1956 on the accounts of **Hindustan Aeronautics Limited, Bangalore** for the year ended 31 March 2011.

It may please be ensured that the Comments are:

(i) printed in toto without any editing;

(ii) placed next to the Statutory Auditors' Report in the Annual Report of the Company with proper indication in the index; and

(iii) placed before the AGM as required under Section 619(5) of the Companies Act, 1956.

The receipt of this letter may please be acknowledged.

Yours faithfully,

(C.H. Kharshiing, IA&AS)
Pr. Director of Commercial Audit
& ex-officio Member, Audit Board

Encl: As above.

भारतीय लेखा तथा लेखापरीक्षा विभाग
INDIAN AUDIT & ACCOUNTS DEPARTMENT
पहला तल, बसवा भवन, श्री बसवेश्वरा रोड, बेंगलूर - 560 001
1st Floor, Basava Bhavan, Sri Basaveswara Road, Bangalore - 560 001
दू. भा. / Phone: 2226 7646 / 2226 1168
E-mail : mabblr@giasbg01.vsnl.co.in
तार / Telegram : DIRCOMIT
फैक्स / Fax : 080-2226 2491

**COMMENTS OF THE COMPTROLLER AND AUDITOR GENERAL OF INDIA UNDER SECTION 619(4) OF THE COMPANIES ACT, 1956 ON THE ACCOUNTS OF HINDUSTAN AERONAUTICS LIMITED, BANGALORE FOR THE YEAR ENDED 31 MARCH 2011.**

The preparation of financial statements of **Hindustan Aeronautics Limited, Bangalore for the year ended 31 March 2011** in accordance with the financial reporting framework prescribed under the Companies Act, 1956 is the responsibility of the management of the Company. The Statutory Auditors appointed by the Comptroller and Auditor General of India under Section 619(2) of the Companies Act, 1956 are responsible for expressing opinion on these financial statements under section 227 of the Companies Act, 1956 based on independent audit in accordance with the auditing and assurance standards prescribed by their professional body, the Institute of Chartered Accountants of India. This is stated to have been done by them vide their Audit Report dated 20 July 2011 and their **Revised Report dated 17 August 2011.**

I, on behalf of the Comptroller and Auditor General of India, have conducted a supplementary audit under section 619(3)(b) of the Companies Act, 1956 of the financial statements of **Hindustan Aeronautics Limited, Bangalore for the year ended 31 March 2011.** This supplementary audit has been carried out independently without access to the working papers of the statutory auditors and is limited primarily to inquiries of the Statutory Auditors and Company personnel and a selective examination of some of the accounting records.

**In view of the revisions made in the financial statements by the Management, as a result of my audit observations highlighted during supplementary audit as indicated in Note No. 35 of the Explanatory Notes (Schedule-24), I have no further comments to offer upon or supplement to the Statutory Auditors' Report, under section 619(4) of the Companies Act, 1956.**

For and on the behalf of the
Comptroller & Auditor General of India

(C.H. Kharshiing, IA&AS)
Pr. Director of Commercial Audit
& ex-officio Member, Audit Board, Bangalore

Bangalore
Dated: 08.09.2011